

## Regulatory Updates

Last updated: September 2024

## Table of contents

September 30, 2024: Gold loans—Irrregular practices observed in grant of loans against pledge of gold ornaments and jewellery .....	2
Tags.....	2
Summary.....	2
Insights.....	2
September 20, 2024: Interest Equalization Scheme (IES) on pre- and post-shipment rupee export credit.....	3
Tags.....	3
Summary.....	3
Insights.....	4
September 19, 2024: Implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005: Designated list (Amendments) .....	4
Tags.....	4
Summary.....	4
Insights.....	4
September 6, 2024: Liberalised Remittance Scheme (LRS) for resident individuals—Discontinuation of reporting of monthly return .....	5
Tags.....	5
Summary.....	5
Insights.....	5

## September 30, 2024: Gold loans—Irregular practices observed in grant of loans against pledge of gold ornaments and jewellery

### Tags

Gold Loans, Irregular Practices, Financial Regulations, Loan-to-Value (LTV), Governance, Risk Management, Compliance, Supervised Entities, Financial Oversight, Third-Party Services, Loan Monitoring, Valuation Practices, Regulatory Compliance

### Summary

The Reserve Bank of India (RBI) identifies several irregular practices in gold loan granting, such as weak governance with multiple loans to the same individual, inadequate valuation processes without customer presence, breaches of loan-to-value (LTV) ceilings, and insufficient monitoring of third-party service providers. The RBI via this notification, urges the supervised entities to comprehensively review their policies and practices, implement necessary improvements, and report back within three months to avoid supervisory action.

### Insights

Here are detailed insights based on the document regarding irregular practices observed in the granting of gold loans:

Irregular practices identified in the Gold Loans sanction/disbursal:

1. **Weak governance:** There are instances of a high number of loans being granted to the same individual using the same Permanent Account Number (PAN), indicating potential misuse or lack of proper monitoring.
2. **Loan rolling over:** Some entities practice rolling over loans at the end of their tenure, [allowing borrowers to make only partial payments, which can lead to a cycle of debt.](#)
3. **Non-categorization as NPA:** Loans that should be classified as Non-Performing Assets (NPA) are not being categorized correctly, often due to practices like evergreening, where overdue loans are renewed or fresh loans are issued without proper assessment.

Deficiencies in processes:

1. **Third-party involvement:** Many loans are granted through partnerships with fintech companies or business correspondents, leading to issues such as the valuation of gold without the customer's presence and inadequate credit appraisal.
2. **LTV monitoring:** There is a lack of robust systems for monitoring the Loan-to-Value (LTV) ratio, with some entities breaching regulatory ceilings without taking corrective action.

3. **End-use verification:** The end use of funds for non-agriculture loans is often not verified, and documentation for agriculture gold loans is frequently inadequate.
4. **Valuation and auction practices:**
5. **Valuation Issues:** The process of valuing gold is sometimes flawed, with low realizations from auctions of defaulted loans, raising concerns about the valuation methods used.
6. **Transparency in auctions:** There are weaknesses in the transparency of the auction process for gold ornaments and jewellery when customers default, which can lead to unfair practices.
7. **Regulatory compliance:** The RBI emphasizes the need for supervised entities to review their policies and practices comprehensively. They are required to implement remedial measures and ensure compliance with regulatory guidelines to avoid supervisory actions.
8. **Action required:** Entities are advised to report back to the RBI within three months regarding the actions taken to address these irregularities. Non-compliance will be viewed seriously and may lead to further regulatory scrutiny.
9. **Importance of monitoring:** The document highlights the need for close monitoring of the gold loan portfolio, especially given the significant growth in this sector. Adequate controls over outsourced activities and third-party service providers are also crucial.

These insights reflect the RBI's commitment to ensuring that gold loan practices are transparent, responsible, and compliant with established regulations, thereby protecting both lenders and borrowers in the financial ecosystem.

**Further details can be found on the RBI website:**

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12735&Mode=0>

## September 20, 2024: Interest Equalization Scheme (IES) on pre- and post-shipment rupee export credit

### Tags

Interest Equalization Scheme, IES, Export Credit, MSME, Rupee Export, Importer-Exporter Code, IEC, Financial Support, Exporters, Subvention Cap

### Summary

The government has extended the Interest Equalization Scheme for pre- and post-shipment rupee export credit from September 1, 2024, to September 30, 2024. The extension and subsidy cap are applicable only for MSME Manufacturer exporters. RBI has kept other provisions of the existing instructions unchanged.

## Insights

Here are some brief insights on the recent updates to the Interest Equalization Scheme (IES):

1. The Interest Equalization Scheme for pre- and post-shipment rupee export credit has been extended by the government of India from September 1, 2024, to September 30, 2024.
2. The annual net subsidy amount is capped at ₹10 crore per Importer-Exporter Code (IEC) for a given financial year.
3. This extension is applicable only for MSME Manufacturer exporters.
4. For MSME Manufacturer exporters, the cap is set at ₹5 crore per IEC for the financial year starting from April 1, 2024.
5. For Manufacturer Exporters and Merchant Exporters under the non-MSME category, the cap is ₹2.5 crore per IEC till June 30, 2024

**Further details can be found on the RBI website:**

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12734&Mode=0>

## September 19, 2024: Implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005: Designated list (Amendments)

## Tags

Weapons of Mass Destruction (WMD), UNSC (United Nations Security Council), Prohibition of Unlawful Activities, Regulated Entities, Security Council Resolution

## Summary

This circular is applicable to all the regulated entities. The circular highlights that regulated entities need to be compliant with Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005

## Insights

1. Regulated entities must verify if there is any change to 'UNSCR 1718 Sanctions List of Designated Individuals and Entities' and act accordingly.
2. Regulated entities need to be compliant with 'Implementation of Security Council Resolution on Democratic People's Republic of Korea Order, 2017'.

Further details can be found on the RBI website:

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12733&Mode=0>

## September 6, 2024: Liberalised Remittance Scheme (LRS) for resident individuals— Discontinuation of reporting of monthly return

### Tags

Liberalised Remittance Scheme, LRS, Discontinuation, Authorised Dealer Category-I, monthly return, transaction-wise information, reporting requirements

### Summary

The Reserve Bank of India has announced the discontinuation of the monthly reporting requirement for the Liberalised Remittance Scheme (LRS) by Authorised Dealer Category-I banks, effective September 2024. Banks will now only need to submit daily transaction-wise information instead of monthly returns.

### Insights

#### 1. **Discontinuation of monthly returns:**

The Reserve Bank of India (RBI) has decided to discontinue the requirement for Authorised Dealer Category-I (AD Category-I) banks to submit monthly returns regarding the number of applications and total amounts remitted under the LRS. This decision is based on a review of the existing reporting requirements.

#### 2. **New reporting requirements:**

Starting from September 2024, AD Category-I banks will be required to upload transaction-wise information daily. This information must be submitted at the close of business on the next working day using the Centralised Information Management System (CIMS) with the return code R010. If there are no transactions to report, banks must submit a 'NIL' report.

#### 3. **Withdrawal of previous circulars:**

The circular also states that several previous instructions related to LRS reporting, including A.P. (DIR Series) Circulars No. 36, 106, 23, 07, and 11, are withdrawn with immediate effect. This indicates a significant shift in the reporting framework for LRS.

4. **Legal framework:**

The directions in this circular are issued under Section 10 (4) and 11 (1) of the Foreign Exchange Management Act, 1999, ensuring compliance with the legal framework governing foreign exchange in India.

5. **Communication to constituents:**

AD Category-I banks are instructed to inform their constituents about these changes, ensuring that all stakeholders are aware of the new reporting requirements and processes.

This update is expected to simplify the reporting process for banks and enhance the efficiency of the LRS framework.

**Further details can be found on the RBI website:**

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12732&Mode=0>