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Regulatory Updates

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July 30, 2024: Master direction on treatment of willful defaulters and large defaulters

Tags

Willful Defaulters, Credit Information Companies, Reporting Requirements, Lenders, Borrowers, Directors Identification, Suit Filed Accounts, Non-Suit Filed Accounts, Classification, Financial Regulations

Summary

The master direction outlines the reporting requirements for willful defaulters and large defaulters (outstanding amount of ₹1 crore and above), including the need for lenders to submit detailed information to Credit Information Companies (CICs). It specifies the identification of directors using their Director Identification Number (DIN) and mandates separate reporting for suit-filed and non-suit filed accounts. The process includes opportunities for borrowers and guarantors to respond to classification proposals before final decisions are made.

Insights

- **Definition of wilful defaulters and large defaulters:** Clarifies what constitutes a wilful defaulter as well as a large defaulter, along with the implications for both borrowers and guarantors.
- **Reporting obligations:** Lenders are required to report information about wilful defaulters to CICs monthly.
- **Types of accounts:** Differentiates between suit-filed accounts and non-suit filed accounts, requiring separate reporting for each.
- **Director identification:** Mandates the use of DIN for accurate reporting of directors associated with wilful defaulters.
- **Classification process:** Outlines the process for classifying accounts as wilful defaults, including the criteria for classification.
- **Opportunity for response:** Provides borrowers and guarantors the chance to respond to proposals for classification as wilful defaulters before final decisions are made.
- **Impact on credit ratings:** Discusses how being classified as a wilful defaulter can adversely affect credit ratings and future borrowing capabilities.
- **Regulatory compliance:** Emphasizes the importance of compliance with Reserve Bank of India regulations regarding credit information dissemination.
- **Data submission formats:** Specifies the format in which data must be submitted to CICs, ensuring consistency and accuracy.
- **Monitoring fund usage:** Highlights the need for lenders to monitor the usage of funds disbursed to borrowers to prevent defaults.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12713&Mode=0

July 30, 2024: Guidelines on treatment of Dividend Equalization Fund (DEF); Primary (Urban) Cooperative Banks (UCBs)

Tags

Dividend Equalization Fund (DEF), General Reserves, Tier I Capital, Capital Adequacy

Summary

This circular is applicable to all Primary (Urban) Cooperative Banks (UCBs). This circular highlights the appropriate treatment of Dividend Equalization Fund (DEF) which banks are utilizing to provide the dividend currently.

Insights

- DEF created by UCBs serves as financial reserves for dividend payouts. This reserves help when bank experiences inconsistent profit or loss. However as per the Reserve Bank of India (RBI) guidelines, it is prohibited to pay dividend from previously accumulated profits or reserves.
- Currently UCBs are considering DEF balance as Tier II capital. But as per the current RBI guideline, UCBs need to transfer the DEF balances to general or free reserve which will help to enhance the bank's capital base and better manage their regulatory capital requirements.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12714&Mode=0

July 30, 2024: Master directions on cyber resilience and digital payment security controls for non-bank payment system operators

Tags

Payment System Operator (PSO), Key Risk Indicators (KRI), Key Performance Indicators (KPI), Business Continuity Plan (BCP), Application Security Life Cycle (ASLC), Vendor Risk Management, Cyber Security Preparedness, Digital Payment Security, Vulnerability Assessment (VA), Penetration Testing (PT), Original Equipment Manufacturer (OEM).

Summary

This master direction is applicable to all authorized non-bank payment system operators. This direction aims to enhance safety and security of digital payment systems by providing a robust framework for information security preparedness along with cyber resilience.

Insights

- Board of director of each payment system operator is responsible to ensure information security risk is managed effectively. This can be achieved by establishing a robust Information Security policy and Cyber Crisis Management Plan (CCMP).
- Payment system operator needs to adhere to compliance timelines and ensure all the stakeholders in the digital payment ecosystem follow specified security controls so that security of the digital payment system can be maintained properly.
- To enhance security and reduce fraud risks in digital transactions; specific measures have been laid out for mobile payments, card payments, and prepaid payment instruments.
- In order to ensure security and integrity of the payment system, Payment System Operator need to adhere to legal, regulatory requirements and obtain necessary certifications.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12715&Mode=0

July 29, 2024: Fully accessible route for investment by non-residents in government securities—exclusion of new issuances in 14-year and 30-year tenor securities

Tags

Fully Accessible Route, Specified securities, Government Securities

Summary

This circular is applicable to all the participants in government securities. The circular highlights modifications related to the investment under fully accessible route for 14-year and 30-year tenor government securities.

Insights

- currently certain categories of government securities are available for investment to the non-resident investors through fully accessible route. through this circular rbi excluded new government securities of 14-year and 30-year tenors from fully accessible route.

Existing Government securities of 14-year and 30-year tenor which are under fully accessible route, are still available for investment to non-resident in secondary market**Further details can be found on the RBI website:**
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12712&Mode=0

July 26, 2024: Prompt Corrective Action (PCA) framework for Primary (Urban) Cooperative Banks (UCBs)

Tags

Prompt Corrective Action, PCA Framework, Urban Cooperative Banks, Financial Stability, Risk Management, Capital Adequacy, Asset Quality, Risk Thresholds, Mandatory Actions, Discretionary Actions, Governance, Liquidity Management, Operational Restrictions, Business Viability, Financial Monitoring.

Summary

The Prompt Corrective Action (PCA) framework is designed for Tier 2, 3, and 4 UCBs to ensure financial stability through supervisory intervention. It includes risk thresholds for capital adequacy and asset quality, with actions such as capital planning and restrictions on investments. The framework aims to address financial health issues promptly and effectively.

Insights

- **Applicability:**
  - The PCA framework targets Primary UCBs in Tier 2, Tier 3, and Tier 4.
- **Key monitoring areas:**
  - Focus on capital, asset quality, and profitability.
  - Indicators include Capital to Risk-Weighted Assets Ratio (CRAR), Net NPA Ratio, and net profit.
- **Risk thresholds:**
  - Breach of risk thresholds can trigger PCA actions.
  - Three risk thresholds are defined for capital and asset quality.
- **Mandatory actions:**
  - Restrictions on branch expansion and capital expenditure.
  - Prohibition on dividend payments and new borrowings.
  - Identification and closure of loss-making businesses.
- **Discretionary actions:**

- Special supervisory monitoring and inspections.
- Additional audits and potential merger options if necessary.

- **Governance actions:**
  - RBI can engage with the bank’s board and remove managerial personnel if required.
  - Appointment of additional directors by RBI.
- **Profitability measures:**
  - Restrictions on variable operating costs and capital expenditure.
  - Measures to reduce interest and administrative expenses.
- **Operational restrictions:**
  - Limitations on non-core business activities and outsourcing.
  - Reduction in risky assets and non-fund-based business.
- **Liquidity and market risk:**
  - Restrictions on inter-bank market dealings and costly deposits.
  - Focus on maintaining liquidity through prudent management.
- **Action plan review:**
  - Regular reviews of the Action Plan by the bank’s Board, with progress reports submitted to RBI.
- **Long-term viability:**
  - Detailed reviews of the business model for sustainability and profitability.
  - Setting achievable targets and milestones for medium-term plans.
- **Special actions:**
  - RBI may impose additional specific actions based on the bank's circumstances.

This detailed list encapsulates the key insights and actions outlined in the PCA framework for UCBs, emphasizing the importance of financial health and regulatory oversight.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12711&Mode=0

July 25, 2024: Bank finance against shares and debentures

Summary

This circular is applicable to all Primary UCBs. This circular states that total loan amount extended against security of shares and debentures shouldn't exceed 20 percentage of Tier I capital of the bank as on 31st March of previous financial year.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12708&Mode=0

July 25, 2024: Small value loans – Primary (Urban) Cooperative Banks (UCBs)

Tags

Tier I capital, Small Value Loans

Summary

This circular is applicable to all Primary (Urban) Cooperative Banks (UCBs). This circular states that at least 50 percentage of aggregate loans and advances provided by Urban Cooperative Banks should be in the form of small value loans.

Insights

- Banks need to have at least 50 percentage of aggregate loans and advances in the form of small value loans in which loans value should not be more than ₹25 lakh or 0.2% of the bank's Tier I capital, whichever is higher.
- Banks need to achieve this target by following the below glide path.
  - At least 40 percentage small value loans in aggregate loans and advances by 31st March 2025
  - At least 50 percentage small value loans in aggregate loans and advances by 31st March 2026

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12709&Mode=0

July 24, 2024: Domestic money transfer – review of framework

Tags

Domestic Money Transfer (DMT), Know Your Customer (KYC), Officially Valid Document (OVD), Additional Factor of Authentication (AFA), Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT)

Summary

This circular is applicable to all authorized payment system operators participants. The circular reviews the framework for Domestic Money Transfer (DMT) highlighting changes related to cash pay-out services, cash pay-in services and card-to-card transfer.

Insights

- **Cash pay-out services:**
    - Remitting bank needs to store name and address of the beneficiary.
- **Cash pay-in services:**
    - In order to adhere to Know Your Customer (KYC) regulatory requirements, remitting bank or business correspondents need to register using verified cell phone number and self-certified 'Officially Valid Document (OVD)'.
    - Cash pay-in Service mandates to validate each transaction through an Additional Factor of Authentication (AFA).
    - While processing transaction through IMPS or NEFT, remitter bank needs to include remitter details in transaction message.
- **Card-to-card transfers:**
    - All the specified changes for DMT framework are not applicable for card-to-card transfer.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12707&Mode=0

July 24, 2024: Master direction—overseas investment

Tags

Overseas Investment, Financial Commitment, Non-performing Asset (NPA), Wilful Defaulter, Overseas Direct Investment, Equity Capital

Summary

This master direction is applicable to all the authorized dealer category–I banks. This master direction is a comprehensive document on overseas investments by Indian residents and provides framework for Indian entities making investments abroad.

Insights

- **Approval process:**
    - Applications for overseas investments by Indian residents and entities must be submitted to the Reserve Bank of India (RBI) through Authorized Dealer (AD) banks.
    - Any financial commitment exceeding USD 1 billion in a financial year requires prior approval from the RBI, even if the investment falls within the automatic route limits.

- **Permission and documents required for overseas investment:**
    - The applicant for the overseas investment needs to submit certain documents along with the proposal application such as organizational structure, reason for seeking approval, valuation certificate in case of foreign entity, financial position and business track record.
    - Individuals or entities classified as Non-performing Assets (NPA) or wilful defaulters are generally required to obtain a No Objection Certificate (NOC) from their lender bank or the relevant regulatory body before making any new financial commitments.
- **Role of AD Bank:**
    - AD Banks need to develop board approved policy for valuation as per internationally accepted pricing methodology.
    - AD Banks need to ensure all the overseas investment applications are adhered to established procedures and guidelines before forwarding them to the RBI.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12710&Mode=0

July 15, 2024: Master directions on fraud risk management in commercial banks (including regional rural banks) and all India financial institutions

Tags
Fraud Risk Management, Commercial Banks, Regional Rural Banks, Early Warning System, Fraud Prevention, Fraud Reporting, Central Fraud Registry, Governance in Banking, Financial Regulations

Summary
The circular outlines a comprehensive framework for managing fraud risks in the banking sector. Effective from July 15, 2024, these directions apply to all commercial banks and All India Financial Institutions (AIFIs), including foreign banks and regional rural banks. The guidelines emphasize the need for robust fraud risk management practices, supervisory reviews, and the requirement for approvals from senior officials for significant decisions related to fraud cases.

The directions aim to enhance the overall integrity and security of the banking system in India while emphasizing the need for a proactive approach to fraud prevention and detection. The comprehensive nature of the directions promotes a holistic approach to fraud risk management by integrating governance, technology, and compliance into a unified strategy.

Insights

- **Applicability:** The guidelines apply to a wide range of banking institutions, including commercial banks, regional rural banks, and various AIFIs, ensuring a comprehensive coverage of the banking sector in India.
- **Governance and policy:** Banks must have a board-approved fraud risk management policy that clearly delineates roles and responsibilities, ensuring accountability at all levels of management.
- **Natural justice principles:**
    - The policy must incorporate principles of natural justice, including the issuance of Show Cause Notices (SCNs) to individuals or entities under investigation, ensuring fairness in the process.
    - Banks are directed to provide a time of not less than 21 days to respond to the said SCN.
- **Early detection mechanisms:** The emphasis on Early Warning Signals (EWS) and red-flagging accounts highlights the importance of timely identification of potential fraud, allowing banks to take preventive measures before significant losses occur.
- **Fraud reporting requirements:** Banks are required to report incidents of fraud to LEAs and the RBI, ensuring that there is a formal mechanism for tracking and addressing fraudulent activities.
- **Early Warning Signals (EWS) and Red Flagging of Accounts (RFA):**
    - Banks are required to develop a comprehensive EWS system integrated with their Core Banking Solutions (CBS) to detect potential fraud.
    - The EWS framework should include both quantitative and qualitative indicators based on transactional data, financial performance, and market intelligence.
    - Banks are required to put in place or upgrade their EWS system within the **next six months**.
- **Central Fraud Registry (CFR):**The establishment of the CFR as a web-based database allows for centralized tracking of fraud-related data, facilitating better risk management and information sharing among banks.
- **Categorization of fraud:** The directions provide specific categories of fraud that banks must report, such as misappropriation of funds, fraudulent encashment, and electronic banking fraud, which helps in standardizing reporting practices.
- **Staff accountability:** There are clear guidelines for examining staff accountability in fraud cases, ensuring that employees are held responsible for their roles in facilitating or failing to prevent fraud.
- **Penal measures:** The guidelines include provisions for penal measures against individuals involved in fraudulent activities, reinforcing the seriousness of fraud and the consequences of such actions.
- **Third-party accountability:** Banks are encouraged to hold third-party service providers accountable for negligence or malpractice that contributes to fraud, promoting diligence in vendor management.
- **Legal audits:** The requirement for legal audits of title documents for large-value loans underscores the importance of thorough due diligence in lending practices to mitigate fraud risk.
- **Timely reporting:** The directions stress the need for timely reporting of fraud incidents, which is crucial for effective investigation and resolution by LEAs and regulatory bodies.
- **Data analytics utilization:** The use of data analytics and monitoring of transactions through digital platforms is emphasized, highlighting the role of technology in identifying unusual patterns indicative of fraud.
- **Collaboration with IBA:** Banks are required to report details of third parties involved in fraud to the Indian Banks' Association (IBA), which will maintain caution lists, fostering collaboration within the banking community.
- **Crisis management:** The framework prepares banks to handle crises related to fraud effectively, ensuring that they have the necessary protocols in place to respond swiftly to incidents.

- **Stakeholder confidence:** By implementing these guidelines, banks can enhance stakeholder confidence, assuring customers and investors of their commitment to maintaining a secure banking environment.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12702&Mode=0

July 15, 2024: Master directions on fraud risk management in Urban Cooperative Banks (UCBs)/State Cooperative Banks (StCBs)/Central Cooperative Banks (CCBs)

Tags

Fraud Risk Management, Cooperative Banks, Urban Cooperative Banks, State Cooperative Banks, Central Cooperative Banks, Governance Structure, Fraud Detection, Reporting Requirements, Whistleblower Mechanism, Show Cause Notice, Special Committee, Internal Audit, Early Warning System, Fraud Prevention, Staff Training, Incident Reporting, Early Warning System

Summary

The circular establishes a framework for Urban Cooperative Banks (UCB), State Cooperative Banks (StCB), and Central Cooperative Banks (CCB) to effectively manage fraud risks. These directions aim to enhance the governance and operational integrity of cooperative banks in combating fraud. As a part of the new regulations, the banks must report incidents of theft, burglary, dacoity, and robbery to the RBI quarterly.

Insights

- **Purpose and applicability:** The directions aim to provide a framework for the prevention, early detection, and timely reporting of fraud incidents in UCBs, StCBs, and CCBs.
- **Governance structure**:
    - Cooperative banks must establish a board-approved fraud risk management policy that delineates roles and responsibilities for the board, board committees, and senior management.
    - A Special Committee of the Board for Monitoring and Follow-up (SCBMF) of fraud cases must be constituted, comprising at least three board members.
- **Fraud risk management policy**:
    - The policy should include measures for prevention, early detection, investigation, staff accountability, monitoring, recovery, and reporting of frauds.
    - The policy must be reviewed by the Board at least once every three years or more frequently as needed.

- **Internal audit**: Internal audits must cover controls and processes related to fraud prevention, detection, classification, monitoring, reporting, closure, and withdrawal of fraud cases.
- **Reporting requirements**:
    - Cooperative banks must report incidents of theft, burglary, dacoity, and robbery to the Fraud Monitoring Group (FMG) at the RBI within seven days of occurrence.
    - The reporting format for such incidents is specified and must be adhered to.
- **Fraud classification process**:
    - A well-defined system for issuing Show Cause Notices (SCN) and examining responses before declaring accounts as fraudulent is required.
    - A reasoned order must be served to convey the decision regarding the classification of accounts as fraud, including relevant facts and circumstances.
- **Whistleblower mechanism**: Cooperative banks must implement a transparent mechanism to address whistleblower complaints regarding possible fraud or suspicious activities.
- **Early Warning System (EWS)**:
    - Banks are encouraged to develop or strengthen their EWS systems to monitor transactions and identify potential fraud indicators.
    - The EWS should be robust, ensuring the integrity of the system and the security of customer data.
- **Senior management responsibilities**: Senior management is responsible for implementing the fraud risk management policy and must periodically review fraud incidents, reporting them to the board or audit committee.
- **Training and awareness**: Banks should ensure that staff are trained and aware of the fraud risk management policies and procedures to enhance overall vigilance against fraud.
- **Continuous improvement**: The effectiveness of fraud risk management measures, including the EWS, should be tested and upgraded periodically to adapt to emerging fraud trends.

These insights highlight the comprehensive approach taken by the RBI to enhance fraud risk management in cooperative banks, focusing on governance, reporting, internal controls, and proactive measures to prevent and detect fraud.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12703&Mode=0

July 15, 2024: Master directions on fraud risk management in Non-Banking Financial Companies (NBFCs) (including housing finance companies)

Tags

Fraud Risk Management, Cooperative Banks, Non-Banking Financial Companies, Housing Finance Companies, Governance Structure, Fraud Detection, Reporting Requirements, Whistleblower Mechanism, Show Cause Notice, Special Committee, Internal Audit, Early Warning System, Fraud Prevention, Staff Training, Incident Reporting

Summary

The Reserve Bank of India has issued directions for Non-banking Financial Companies (NBFCs) to establish a governance structure for fraud risk management, including an Early Warning System (EWS) for detecting potential fraud. NBFCs are required to report fraud incidents to law enforcement and the RBI, ensuring compliance with legal and procedural standards. Additionally, legal audits are mandated for large loan accounts before any transfer to other lenders or Asset Reconstruction Companies.

Insights

- **Governance structure**
    - Establishment of a board level committee to oversee the effectiveness of the EWS framework.
    - Senior management is responsible for implementing a robust EWS framework.
- **Early Warning System (EWS)**
    - EWS must include both quantitative and qualitative indicators for monitoring credit facilities and other financial transactions.
    - Indicators should be based on transactional data, financial performance, market intelligence, and borrower conduct.
    - Periodic review of the effectiveness of these indicators is required.
- **Fraud detection and investigation**
    - Suspicion of fraudulent activity triggers deeper investigation, potentially involving external or internal audits.
    - A policy for engaging external auditors must be framed, covering due diligence and competency.
- **Monitoring transactions:**
    - Continuous monitoring of credit facilities, loan accounts, and other financial transactions for signs of fraud.
    - Special vigilance on non-KYC compliant accounts and unusual transaction patterns.
- **Reporting obligations:**
    - Mandatory reporting of fraud incidents to law enforcement agencies and the Reserve Bank of India.
    - Maintenance of detailed records of fraud cases for auditor examination.
- **Legal audits:**
    - Legal audits of title documents for large value loan accounts (₹1 crore and above) are required periodically.

- Ensures the integrity of title deeds before transferring loans to other lenders or asset reconstruction companies.

- **System integration:**
  - EWS must be integrated with Core Banking Solutions (CBS) or other operational systems for real-time monitoring.
  - The system should ensure the security of personal and financial data of customers.
- **Remedial actions:**
  - Initiation of remedial actions upon EWS triggers, including prevention, early detection, and reporting of frauds.
  - Continuous upgrading of the EWS system to enhance its integrity and robustness.
- **Staff accountability:**
  - Clear accountability measures for staff involved in fraud detection and management.
  - Implementation of penal measures for negligence or failure to act on fraud indicators.
- **Validation and testing:**
  - The EWS framework must undergo suitable validation to ensure its integrity and consistency.
  - Periodic testing of the EWS system's effectiveness is mandated.

These insights provide a comprehensive understanding of the RBI's directives aimed at enhancing fraud risk management within NBFCs.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12704&Mode=0

July 10, 2024: Remittances to International Financial Services Centers (IFSCs) under the Liberalized Remittance Scheme (LRS)

Tags

Bulk Deposits, Single rupee term deposit, Interest Rate on Deposits

Summary

This circular is applicable to all authorized person. The circular highlights increased permissible purpose of remittance to International Financial Services Centers (IFSCs) under Liberalized Remittance Scheme (LRS).

Insights

- Currently remittance to IFSC under LRS can be done for
  - Investment in securities issued by entities present in IFSC but not by the entities which are resident in India and outside of IFSC.
  - Education fees to foreign universities or institutions which are in IFSCs.
- Through this circular RBI has expanded the scope of all permissible purposes which includes
  - Authorized persons can facilitate remittances under LRS for accessing financial services or financial products which are available within IFSC.
  - Remittances under LRS can be used for current or capital account transactions in foreign jurisdictions outside the IFSC through a Foreign Currency Account (FCA) which is maintained within IFSC.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12699&Mode=0

July 10, 2024: Basel III Capital Regulations—Eligible Credit Rating Agencies (ECAI)

Tags

Eligible Credit Rating Agencies (ECAI), Risk Weighting, Capital Adequacy, Rating Surveillance, Credit Ratings

Summary

This circular is applicable to all Schedule Commercial Banks excluding Local Area Banks, Payments Banks and Regional Rural Banks. This circular states that banks can use ratings from accredited Credit Rating Agencies (CRA) to determine the risk weights of their assets which helps to follow capital adequacy guidelines.

Insights

- Banks can get fresh ratings from CRA for loan amount not exceeding Rs. 250 crore.
- For existing ratings, CRA may take responsibility of rating surveillance till the maturity of the loans irrespective of the rated amount. However, if the existing rating is assigned to working capital facilities exceeding Rs. 250 crore then CRA need to perform rating surveillance until the facility is renewed by the bank.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12700&Mode=0

July 03, 2024: Online submission of Form A2: Removal of limits on amount of remittance

Tags

Foreign Exchange Management Act, Authorised Dealers, Form A2, Remittances, RBI Circular, Online Submission, Ease of Doing Business, KYC Compliance, FETERS Reporting

Summary

The notification is concerned with the release of foreign exchange for miscellaneous remittances. As per the new directive, authorised dealers are now required to obtain Form A2 for all cross-border remittances, regardless of the transaction value. This change aims to streamline regulatory compliance and operational procedures, effectively replacing previous circulars that allowed for simpler remittance processes without this requirement.

Insights

- **Governance structure:**
    - Establishment of a Board Level Committee to oversee the effectiveness of the EWS framework.
    - Senior management is responsible for implementing a robust EWS framework.
- **Removal of limits:** The circular permits authorised dealers (AD Category-I and II) to facilitate remittances without limits on the amount for online submissions of Form A2.
- **Online submission**: Authorised dealers can now accept Form A2 submissions online, improving the ease of doing business for customers.
- **Regulatory compliance**: ADs must continue to comply with the provisions of the Foreign Exchange Management Act (FEMA) 1999 and the updated KYC directions.
- **Transaction reporting**: Transactions must still be reported in the Foreign Exchange Transaction Electronic Reporting System (FETERS) by the Authorised Dealer banks.
- **Guideline development**: Authorised Dealers are required to create appropriate guidelines for processing remittances, subject to their Board's approval.
- **Ongoing conditions**: The circular emphasizes adherence to existing statutory and regulatory frameworks while facilitating remittances.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12697&Mode=0

July 03, 2024: Release of foreign exchange for miscellaneous remittances

Tags

Foreign Exchange, Miscellaneous Remittances, Authorised Dealers, Regulatory Compliance, Operational Procedures, Form A2, Cross-border Remittances, FEMA (Foreign Exchange Management Act), RBI Circulars, Transaction Limits

Summary

The directions mentioned in this circular are issued under sections 10(4) and 11(1) of FEMA, 1999. They update previous directions regarding the release of foreign exchange for miscellaneous remittances. authorised dealers must now obtain Form A2 (in physical or digital form) for all cross-border remittances, regardless of the transaction value. It withdraws earlier circulars (A.P.(DIR Series) Circular No. 16, 55, and 118) that allowed simpler procedures for transactions up to USD 25,000.

Insights

- **New requirement**: Authorised Dealers must now obtain Form A2 for all cross-border remittances, regardless of the transaction value. This marks a shift from previous regulations where a simple letter sufficed for amounts up to USD 25,000.
- **Withdrawn circulars**: Several earlier circulars, which permitted transactions without Form A2, have been withdrawn immediately. This indicates a tightening of procedures to ensure compliance with regulations under the Foreign Exchange Management Act (FEMA).
- **Compliance assurance**: Authorised dealers are required to ensure that transactions do not violate any provisions of FEMA, reflecting an emphasis on regulatory compliance.
- **Transaction methods**: Payments for remittances should still be made via demand draft or cheque, maintaining a level of traditional banking practice amidst regulatory updates.
- **Increased documentation**: Clients will need to prepare Form A2 for all remittances, adding an extra layer of documentation before initiating transactions.
- **Potential delays**: The new requirement may lead to delays in processing payments as dealers verify compliance with the new regulations.
- **Client education**: Authorised dealers must proactively educate clients about the new requirements to ensure understanding and compliance.

Further details can be found on the RBI website:
https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12696&Mode=0