

# RECENT RBI CIRCULARS AND CERTIFICATION

Pimpri Chinchwad Branch of WIRC of ICAI

25th March 2023

Seminar on Bank Branch Audit

# Certification : General and Specific

- Specific Certification
- General Certification

Signing of Disclosures and other statements is also certification

LFAR – General assertion in replies is also certification

Comments on top 5 borrowers

NPA through System only

Frauds- Potential risk areas and EWS

Red Flagged Accounts

# Resources

- Guidance Note issued by ICAI - 2023 – Revised Edition
- List of Master Circulars and also detailed circulars in Part D of GN
- 54 Master Directions issued by RBI – in Part E of GN
- Notifications and General Circulars – in Part F of GN
- RBI website – Index of Circulars



Difference between Master Directions and Master Circular?

# RBI Website reference



भारतीय रिज़र्व बैंक  
**Reserve Bank of India**  
India's Central Bank



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Banker and Debt Manager to  
Government

Co-operative Banking

Commercial Banking

Financial Inclusion and  
Development

Financial Market

Foreign Exchange Management

Issuer of Currency

## MASTER DIRECTIONS

The Reserve Bank of India has started issuing Master Directions on all regulatory matters beginning January 2016. The Master Directions consolidate instructions on rules and regulations framed by the Reserve Bank under various Acts including banking issues and foreign exchange transactions. The process of issuing Master Directions involves issuing one Master Direction for each subject matter covering all instructions on that subject. Any change in the rules, regulation or policy is communicated during the year by way of circulars/press releases. The Master Directions will be updated suitably and simultaneously whenever there is a change in the rules/regulations or there is a change in the policy. All the changes will get reflected in the Master Directions available on the RBI website along with the dates on which changes are made. Explanations of rules and regulations will be issued by way of Frequently Asked Questions (FAQs) after issue of the Master Directions in easy to understand language wherever necessary. The existing set of [Master Circulars](#) issued on various subjects will stand withdrawn with the issue of the Master Direction on the subject.

# MASTER DIRECTIONS

# Important Master Directions

- Master Directions on Frauds – Classification and Reporting by commercial banks and select FIs – Last updated July 03,2017
- Master Directions – Priority Sector Lending (PSL) – Targets and Classification – Last Updated as on October 20, 2022
- Master Direction on Financial Statements - Presentation and Disclosures – Last updated February 20, 2023

# Master Directions – Frauds: Classification and Reporting

- **Frauds** have been classified as under, based mainly on the provisions of the Indian Penal Code:
  - a. Misappropriation and criminal breach of trust.
  - b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
  - c. Unauthorised credit facilities extended for reward or for illegal gratification.
  - d. Cash shortages.
  - e. Cheating and forgery.
  - f. Fraudulent transactions involving foreign exchange. The formats are available on RBI website ([https://rbi.org.in/scripts/Non\\_OSMOS.aspx](https://rbi.org.in/scripts/Non_OSMOS.aspx))
  - g. Any other type of fraud not coming under the specific heads as above.
- **Frauds against the Bank and By the Bank**

# Master Directions – Frauds: Classification and Reporting

- All cases of cash shortage more than ₹ 10,000/-, (including at ATMs) and cases of cash shortage more than ₹ 5,000/- if detected by management / auditor/ inspecting officer and not reported on the day of occurrence by the persons handling cash
- **Account Opening Fraud:** This involves an account being opened with either fake or original KYC documents with an intent to depositing and cashing of fraudulent cheques/ instruments. [?]
- **Cheque Kiting:** It is the method where by a depositor utilizes the time required for cheques (which is issued from an account having insufficient funds) to clear, to obtain an unauthorized loan with or without any interest charge.
- **Cheque Fraud:** It is the most common method where frauds are committed through stolen cheques and forged signatures.
- **Counterfeit Securities:** In this type of fraud, forged, duplicated or tampered documents, securities, bonds and certificates are presented as security for availing loan.
- **Digital Fraud:** Under this type of fraud, the fraudster resorts to hacking, tampering to gain unauthorised access to siphon off or misappropriate funds.



# Master Directions – Frauds: Classification and Reporting

- **Loan Fraud:** This type of fraud is committed by lending funds to a non-borrowing customer or allowing a borrowing customer to exceed his credit limit, without adequate sanction / authority.
- **Money Laundering Fraud:** This type of fraud is committed by concealing the existence, source or use of illegally obtained money, by converting the cash into untraceable transactions in banks.
- **Letters of Credit:** This type of fraud is most common in international trade but has also been observed in domestic trade. In respect of international trade, these instruments used in cross borders transactions with underlying trade documents which are forged, altered, adjusted and take longer to identify ultimate destiny of merchandise. In respect of domestic trade these instruments are used to convert non funded facility into cash in purported trade transactions. Cash generated through such transactions is diverted or misappropriated out of system.
- **Advanced Fees Fraud:** This is popularly known as “419 scam”. Advanced fees fraud may involve agent with an offer of a lucrative business proposition / promise to make substantial funds available against advance fee or series of advance fees.

# Master Directions – Frauds: Classification and Reporting

- **45** Early Warning Signals (EWS):
  - Under insured or over insured inventory.
  - Invoices devoid of GSTN and other details.
  - Dispute on title of collateral securities.
  - Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.
  - Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
  - Funding of the interest by sanctioning additional facilities.
  - Exclusive collateral charged to a number of lenders without NOC of existing charge holders.
- **Potential Risk** areas to be reported
- Whether EWS framework working effectively and whether accounts **RFA**?

# Master Directions – Priority Sector Lending: Targets and Classification

- Auditor has to verify the aspect of Priority sector lending
- “Deposits placed with NABARD/SIDBI/NHB for meeting shortfall in Priority Sector Lending by Banks-Reporting in Balance Sheet” to be disclosed under Schedule 11- ‘Other Assets’ under the subhead ‘Others’ of the Balance Sheet instead of disclosing under Schedule 8 “Investments”.
- RBI vide Master Circular No. RBI/2022-23/99 FIDD.GSSD.BC.No.11/ 09.10.001/2022-23 dated 2nd August, 2022 has provided that banks to fulfil the sub target of 11.5 per cent to minority sector under the overall PSL target. It lists notified communities, list of minority concentration Districts, requirements on creation of separate cell and roles and responsibilities of lead bank in addition to other guidelines
- Communities have been notified as minority communities by the GOI (Ministry of Minority Affairs):
  - (a) Sikhs
  - (b) Muslims
  - (c) Christians
  - (d) Zoroastrians
  - (e) Buddhists
  - (f) Jains

# Master Direction on Financial Statements

## - Presentation and Disclosures

- Balance Sheet and Profit & Loss Account to be in format prescribed in Section 29 of Banking Regulation Act.
- Disclosures as per Annexure III :
  - 4a: Classification of Advances and provisions held
  - 4b: Sector-wise advances and Gross NPAs
  - 4g: Fraud accounts
  - 5 : Exposures- to Sensitive sectors
- Banks shall ensure that balance sheet and profit and loss account reflects true and fair picture of its financial position. Instances of window dressing of financials, short provisioning, misclassification of NPAs, under-reporting/incorrect computation of exposure/risk weight, incorrect capitalization of expenses, capitalization of interest on NPAs, deliberate inflation of asset and liabilities at the end of the financial year and subsequent reversal immediately in next financial year, etc. shall be viewed seriously

# MASTER CIRCULARS

# Important Master Circulars issued during FY 2022-23

- Master Circular – Detection and Impounding of Counterfeit Notes: RBI/2022-23/07 DCM (FNVD) G –1/16.01.05/2022-23 April 1, 2022
- Master Circular – Housing Finance: RBI/2022-23/16 DOR.CRE.REC.No.06/08.12.001/2022-23 April 01, 2022
- Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances: RBI/2022-23/15 DOR.STR.REC.4/21.04.048/2022-23 April 1, 2022
- Master Circular - Guarantees and Co-acceptances : RBI/2022-23/10 DOR.STR.REC.8/13.07.010/2022-23 April 1, 2022
- Master Circular – Mobile Banking transactions in India – Operative Guidelines for Banks: RBI/2016-17/17 DPSS.CO.PD.Mobile Banking.No./2/02.23.001/2016-2017 (Last Updated Nov 12, 2021)
- Modified Interest Subvention Scheme for Short Term Loans for Agriculture and Allied Activities availed through Kisan Credit Card (KCC) during the financial years 2022-23 and 2023-24 RBI/2022-23/139 FIDD.CO.FSD.BC.No.13/05.02.001/2022-23 November 23, 2022

## Detection and Impounding of Counterfeit Notes:

- No credit to customer's account is to be given for Counterfeit Notes, if any, detected in the tender received over the counter or at the back-office / currency chest.
- In no case, the Counterfeit Notes shall be returned to the tenderer or destroyed by the bank branches. Failure of the banks to impound Counterfeit Notes detected at their end will be construed as wilful involvement of the bank concerned in circulating Counterfeit Notes and penalty will be imposed.
- Soiled Notes : Criteria prescribed by RBI

# Detection and Impounding of Counterfeit Notes:

- Notes determined as counterfeit shall be stamped as "COUNTERFEIT NOTE". Each such impounded note shall be recorded under authentication, in a separate register.
- An acknowledgement receipt in the prescribed format must be issued to the tenderer, after stamping the note
- The banks shall re-align their cash management in such a manner so as to ensure that banknotes in the denominations of ₹100 and above are not put into re-circulation without the notes being machine processed for authenticity. The said instructions shall be applicable to all bank branches, irrespective of the volume of daily cash receipt
- It is imperative to put in place adequate safeguards / checks before loading ATMs with notes. Dispensation of Counterfeit Notes through the ATMs would be construed as an attempt to circulate the Counterfeit Notes by the bank concerned
- Note Sorting machine to be tested for accuracy and consistency on a quarterly basis and recalibrated, if required. A certificate (signed by Bank Officials) to this effect shall be maintained for records.



# Clean Note criteria

<b>I.No.</b>	<b>Feature</b>	<b>Criteria</b>
1	Soiling	General distribution of dirt across the entire note
2	Limpness	Structural deterioration resulting in a marked lack of stiffness
3	Dog-ears	Corner folds
4	Tears	Lengthwise and crosswise cuts
5	Holes	Holes of a specific diameter
6	Stains	Localised concentration of dirt
7	Graffiti	Deliberate graphic alteration of the note
8	Crumples	Multiple random folds
9	Decolouration	Lack of ink on part or whole of the note, e.g. a washed note
10	Folds	Folds reducing the length or width of the note
11	Repair	Note repaired using adhesive tape/ paper/ glue

# Housing Finance

- While formulating their policies, banks have to take into account the following RBI guidelines and ensure that bank credit is used for production, constructions activities and not for activities connected with speculation in real estate.
- Bank finance can be granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves. They can extend finance to public agencies and not private builders for acquisition and development of land
- Copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility must be obtained by the Banks/FIs before sanctioning the home loan
- No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.
- No loan should also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

# Housing Finance

- An Architect appointed by the bank must certify at various stages of construction that the building is as per sanctioned plan and/or building byelaws. Further also certify before disbursement of the loan that the built up property is strictly as per the plan / byelaws
- Banks are not permitted to extend **fund based or non-fund based facilities to private builders** for acquisition of land even as part of a housing project.
- LTV Ratio (%)  $\leq 80$  then Risk Weight (%) 35
- LTV Ratio (%)  $> 80$  and  $\leq 90$  then Risk Weight (%) 50
- In order to have uniformity in the practices adopted for deciding the value of the house property while sanctioning housing loans, banks should not include stamp duty, registration and other documentation charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted. However, in cases where the cost of the house/dwelling units does not exceed Rs.10 lakh these amounts may be considered.
- Banks should also adopt the National Disaster Management Authority (NDMA) guidelines and suitably incorporate them as part of their loan policies, procedures and documentation.

# Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

- System based classification
- Valuation
- Stock Audit Reports and Other Audit Reports
- Calculation of DP

# Guarantees and Co-acceptances

- Confine to the provision of financial guarantees and exercise due caution with regard to performance guarantee business.
- No bank guarantee should normally have a maturity of more than 10 years. If issued, SBA may check Bank policy for such issuance beyond 10 years
- In the case of performance guarantee, banks should exercise due caution and have sufficient experience with the customer to satisfy themselves that the customer has the necessary experience, capacity and means to perform the obligations under the contract, and is not likely to commit any default.
- Risk management:
  - (i) In order to prevent unaccounted issue of guarantees, as well as fake guarantees, as suggested by IBA, bank guarantees should be issued in serially numbered security forms
  - (ii) Banks should, while forwarding guarantees, caution the beneficiaries that they should, in their own interest, verify the genuineness of the guarantee with the issuing bank
- Bank guarantees issued for Rs.50,000/- and above should be signed by two officials jointly

# Guarantees and Co-acceptances

- Only genuine trade bills should be co-accepted and the banks should ensure that the goods covered by bills co-accepted are actually received in the stock accounts of the borrowers.
- The valuation of the goods as mentioned in the accompanying invoice should be verified to see that there is no over-valuation of stocks.
- The banks should not extend their co-acceptance to house bills/ accommodation bills drawn by group concerns on one another.
- A system of obtaining periodical confirmation of the liability of co-accepting banks in regard to the outstanding bills should be introduced.
- Co-acceptances in respect of bills for Rs.10,000/- and above should be signed by two officials jointly, deviation being allowed only in exceptional cases, e.g. nonavailability of two officials at a branch. Check DOA
- For LCs for import of goods, payment to the overseas suppliers on the basis of shipping documents be made cautiously. The payments should be released to the foreign parties only after ensuring that the documents are strictly in conformity with the terms of the LCs. There have been many irregularities in the conduct of LC business, such as the LC transactions not being recorded in the books of the branch by officials issuing them, the amount of LCs being much in excess of the powers vested in the officials etc.

# Mobile Banking transactions in India – Operative Guidelines for Banks

The rapid growth of mobile users in India, through wider coverage of mobile phone networks, have made this medium an important platform for extending banking services to every segment of banking clientele in general and the unbanked segment in particular.

‘Mobile Banking transaction’ means undertaking banking transactions using mobile phones by bank customers that involve accessing / credit / debit to their accounts

- Banks shall put in place a system of registration of customers for mobile banking. Banks should strive to provide options for easy registration for mobile banking services to their customers, through multiple channels, thus minimizing the need for the customer to visit the branch for such services.
- Transactions up to Rs 5000/- can be facilitated by banks without end-to-end encryption
- Banks should conduct regular information security audits on the mobile banking systems to ensure complete security.
- In Credit assessments: contact point – obtaining mobile number is mandatory
- Mobile Banking is also open to fraud risks
- Banks shall send an email and **SMS alert** to the registered email ID and mobile number of the customer before the end of the day as a positive confirmation intimating the date and time of the locker operation and the redressal mechanism available in case of unauthorized locker access.
- Mobile banking fees are included under head Commission, Exchange and Brokerage

# Modified Interest Subvention Scheme Kisan Credit Card (KCC) during the financial years 2022-23 and 2023-24

- Interest Subvention Scheme for short term loans for agriculture and allied activities continued
- This interest subvention will be calculated on the loan amount from the date of disbursement/drawal up to the date of actual repayment of the loan by the farmer or up to the due date of the loan fixed by the banks, whichever is earlier, subject to a maximum period of one year.
- For Financial Year 2022-23: Lending rate to farmers: 7.00%  
Rate of Interest Subvention to Lending Institutions : 1.50%
- An additional interest subvention of 3% per annum will be provided to such of those farmers repaying in time (Prompt repayment)
- KCC available for further period of 6 months to **Small and Marginal farmers** on production of **Warehouse receipts**



# Modified Interest Subvention Scheme Kisan Credit Card (KCC) during the financial years 2022-23 and 2023-24

## 1. Overall KCC limit - ₹3 lakhs

Limit under Crop loan - ₹0.5 lakh

Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries – ₹2.5 lakhs

IS and PRI benefit will be available on overall ₹2.5 lakhs i.e. • ₹0.5 lakh - Crop loan + ₹2 lakhs - Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries

## 2. Overall KCC limit - ₹4 lakhs

Limit under Crop loan - ₹3.15 lakhs

Sub-limit under Animal Husbandry and/or Dairy and/or Bee keeping and/or Fisheries – ₹0.85 lakh

IS and PRI benefit will be available on overall ₹3 lakhs for crop loan component only

## Modified Interest Subvention Scheme Kisan Credit Card (KCC) during the financial years 2022-23 and 2023-24

We certify that the above claim for **interest** subvention of ₹ \_\_\_\_\_ calculated on **eligible short term** credit to farmers **through KCC** disbursed by the bank during the period from \_\_\_\_\_ to \_\_\_\_\_ has been found true and correct and strictly in accordance with the RBI circular FIDD.CO.FSD.BC.No.13/05.02.001/2022-23 dated November 23, 2022. Further, we certify that **Aadhar Number** / Aadhar Enrolment Number (AEN) of all farmers for whom the interest subvention is being claimed for reimbursement has been **captured and available** with the bank and there is no case of claim for reimbursement where Aadhar No./AEN is not available (except for Assam, Meghalaya, and UTs of Jammu and Kashmir and Ladakh).

# Various Specific Certificates

## 1. Certificate of Ghosh and Jilani committee Recommendations.

Answer is Yes/No/Not applicable. Verification is necessary. Certain issues where no domain expertise available with SBA e.g., Paper used for cheques/drafts such that no alteration is possible with any chemical. Appropriate measures for avoiding unscrupulous attacks, EDP applications in consisted and reliable systems and so on. Comments to be included in LFAR.

1. Certificate giving details of claims lodged with DICGC / ECGC however, rejected by them.
2. Risk weighted assets as per the capital adequacy report (BASEL II & III).
3. Subsidy claim under Prime Minister Rojgar Yojna Or any other scheme of the Central/State Government.
4. Certificate for Interest Subvention.
5. Other additional certificates as may be prescribed –  
Classification of advances and provisioning only through system without manual intervention

# THANK YOU

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