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Foreign Exchange Management Act, 1999 (FEMA)

Remittances to International Financial Services Centres (IFSCs) under the Liberalised Remittance Scheme (LRS)

[RBI/2023-24/21 dated 26th April 2023](#)

The RBI, vide above circular dated 26th April 2023, has dispensed with the requirement of repatriating within 15 days, the idle funds of the resident individual lying in their Foreign Currency Account (FCA) at IFSCs.

[RBI/2023-24/45 dated 22nd June 2023](#)

The RBI, vide the above circular has directed the authorised persons to facilitate remittances of fees by resident individuals for pursuing courses in Financial Management, FinTech, Science, Technology, Engineering and Mathematics at foreign universities or foreign institutions located in IFSCs.

Levy of charges on forex prepaid cards/ store value cards/ travel cards, etc.

[RBI/2023-24/29 dated 9th May 2023](#)

The RBI has directed all Authorised Dealers to settle all fees/charges/ levies on International Credit Cards (ICC)/ Store Value Cards/Charge Cards/Smart Cards or any other instrument only in INR and not in foreign currency, with exception to payments made via ICC in foreign currency while on a visit outside India.

Deferment of transactions using ICC from LRS purview

[CBDT Circular No. 10 of 2023](#)

The removal of exemption for use of ICC outside Indian for the LRS transactions has been deferred; Therefore, use of ICC outside India would continue to be outside the purview of LRS.

Snippets:

Facility of filing Form A2 online by the customers of AD Category-I Banks has now been extended to AD Category-II Banks as well [vide RBI/2023-24/16 dated 12th April 2023](#)

The Reserve Bank of India (RBI)

Framework for acceptance of Green Deposits

[RBI/2023-24/14 dated 11th April 2023](#)

The RBI has issued the aforesaid framework to encourage regulated entities (REs) to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities/projects.

The provisions of these instructions will be applicable to the following entities, collectively referred to as REs:

- Scheduled Commercial Banks including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks) and
- All Deposit taking Non-Banking Financial Companies (NBFCs) registered with the Reserve Bank of India including Housing Finance Companies (HFCs) registered under The National Housing Bank Act, 19872.

Inter alia, other key features include the following:

- The allocation of funds raised through green deposits by REs during a financial year (FY) should be subject to an independent Third-Party Verification/ Assurance which should be done on an annual basis.
- A review report should be placed by the RE before its Board of Directors within 3 months of the end of the FY which should, *inter-alia*, include (i) amount raised under green deposits during the previous FY (ii) list of green activities/projects to which proceeds have been allocated, along with a brief description of the projects (iii) the amounts allocated to the eligible green activities/projects (iv) a copy of the Third-Party Verification/ Assurance Report and the Impact Assessment Report.
- REs should make appropriate disclosures in their Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds as per the prescribed proforma.

Guidelines on Default Loss Guarantee (DLG) in Digital Lending

[RBI/2023-24/41 dated 8th June 2023](#)

The RBI has decided to permit arrangements between REs and Lending Service Providers (**LSPs**) or between two REs involving default loss guarantee (**DLG**), commonly known as First Loss Default Guarantee (FLDG) subject to the guidelines laid down in this Circular.

These guidelines are applicable to DLG arrangements entered in 'Digital Lending' operations undertaken by following entities (hereinafter referred to as 'Regulated Entities'):

- All Commercial Banks (including Small Finance Banks),
- Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks; and
- NBFCs (including HFCs)

Salient Features

- DLG is a contractual arrangement, called by whatever name, between the RE and an entity meeting the criteria laid down in these guidelines, under which the latter guarantees to compensate the RE, loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. Any other implicit guarantee of a similar nature linked to the performance of the loan portfolio of the RE and specified upfront, shall also be covered under the definition of DLG.
- Eligibility as DLG Provider – RE may enter into DLG arrangements only with a LSP/ other RE with which it has entered into an outsourcing (LSP) arrangement. The LSP providing DLG must be incorporated as a company under the Companies Act, 2013.
- Structure of DLG Arrangements- DLG arrangements must be backed by an explicit legally enforceable contract between the RE and the DLG provider. Such contract, among other things, must contain the following details:
 - ▲ Extent of DLG cover
 - ▲ Form in which DLG cover is to be maintained with the RE

- ▲ Timeline for DLG invocation
- ▲ Disclosure requirements (The RE should put in place a mechanism to ensure that LSPs with whom they have a DLG arrangement should publish on their website the total number of portfolios and the respective amount of each portfolio on which DLG has been offered)
- Forms of DLG- RE should accept DLG only in one or more of the following forms:
 - ▲ Cash deposited with the RE
 - ▲ Fixed Deposits maintained with a Scheduled Commercial Bank with a lien marked in favour of the RE
 - ▲ Bank Guarantee in favour of the RE
- Recognition of NPA- Recognition of individual loan assets in the portfolio as NPA and consequent provisioning should be the responsibility of the RE as per the extant asset classification and provisioning norms irrespective of any DLG cover available at the portfolio level. The amount of DLG invoked should not be set off against the underlying individual loans. Recovery by the RE, if any, from the loans on which DLG has been invoked and realised, can be shared with the DLG provider in terms of the contractual arrangement.

KEY TAKE AWAY

- The preset circulars issued by RBI are clarificatory in nature and with the intent of bringing about operational convenience in carrying out business activities.
- Guidelines on Default Loss Guarantee (DLG) in Digital Lending intends to ensure orderly development of the credit delivery system.



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www.cnkindia.com

CNK & Associates LLP
Chartered Accountants

Mumbai

3rd Floor, Mistry Bhavan, Dinshaw Vachha
Road, Churchgate, Mumbai 400 020, India
Tel: +91 22 6623 0600

501/502, Narain Chambers, M.G Road,
Vile Parle (East), Mumbai 400 057, India
Tel: +91 22 6250 7600

Bengaluru: +91 80 2535 1353

Ahmedabad: +91 79 2630 6530

Pune: +91 20 2998 0865

Chennai: +91 44 4384 9695

GIFT City: +91 79 2630 6530

Dubai: +971 4 3559533

Vadodara: +91 265 234 3483

Delhi: +91 11 2735 7350

Abu Dhabi: +971 4 3559544