



Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in



www.fidcindia.org.in

April 12, 2021

To

**Shri Jayant Kumar Dash,
Executive Director,
Reserve Bank of India
Central Office Building
Shahid Bhagat Singh Road
Mumbai-400 001.**

Respected Shri Jayant Kumar Dash,

SUB: Issues discussed at the Meeting on 05 04 21

We once again **thank you** for the discussion held at the virtual Meeting with yourself and RBI CGM Mr. Manoranjan Mishra with the key Directors of FIDC on April 05, 2021. We substantiate some of the other issues discussed at the Meeting in relation to MSME Funding.

MSME Related Matter:

As per MSME Ministry's Notification and subsequent RBI circulars, Udyam Registration number is mandatory for classification as MSME.

Issue

There is no provision on the Udyam Registration portal for registration of Retail and wholesale traders which means that they cannot be covered under MSME.



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Our submission

We would like to highlight that retail traders form an important part of the MSME industry and, therefore, should not be excluded from the purview of registration on Udyam portal. In our view, these two segments should also be covered under the definition of MSME and this would enhance the scope of comprehensive financial inclusion.

Further, it is prescribed that until March 31, 2021, the Udyam Registration Number can be obtained on the basis of self-declaration and starting April 1, 2021, GSTN would be mandatory.

Issue

Making GST compulsory for obtaining Udyam registration would mean that on and from April 1, 2021, a large number of MSME beneficiaries like commercial vehicle/taxi operators, construction equipment owners/operators, people owning tractors for commercial purposes, etc. who can obtain Udyam registration today on the basis of their self-declaration would lose their classification on and from April 1, 2021 and new customers will not be able to register as they are below the threshold required to obtain GSTN registration.

Our submission

It is submitted that as on date, GST registration is exempt for manufacturing entities with an annual turnover of Rs. 40 Lakhs and service industry entities with an annual turnover of Rs. 20 Lakhs (excluding special States, where lower threshold has been prescribed). While we are in the process of making appropriate representation to the MSME ministry, to



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FIDC

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undertake necessary changes on Udyam portal to make GST registration as non-mandatory for the entities who have not breached the threshold, it will be helpful if the RBI defers the implementation of its Circular No. RBI/2020-2021/26 FIDD.MSME&NFS.BC.No.4/ 06.02.31/ 2020-21 dated August 21, 2020, by one year to 1st April,2022, so that the definitions can be synchronized after taking in to account the segments mentioned hereinabove. Further, this step will also go a long way in helping these underserved customer segments in not only overcoming the current pandemic situation, but also in bringing them in the formal financial system.

Current Account Related circular:

We refer to the RBI Circular - RBI/2020-21/20 DOR.No.BP.BC/7/21.04.048/2020-21 dated August 6, 2020 on opening of Current Accounts by banks. In that context the following is noteworthy:

Issue:

As you are aware that the biz model of the NBFCs catering to individual customers in tier towns requires them to have high touch with and provide prompt service on disbursals and collections of instalments. As a result, the NBFCs have arrangements with no of banks having deep regional presence in the states for cash management and remote cheque facility to supplement the customer service. However, under the issued guidelines referred above, the NBFCs can't avail collection & remittance facility and/or remote cheque issuance facility for disbursal if the concerned bank does not have at least 10% of total credit facilities enjoyed by the NBFCs. It will deprive the NBFCs from availing the banking services which are available in remote regions by the respective banks as lot of these banks while they



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may be member of the consortium, still may not have credit facilities required to achieve 10% share.

Submission:

The NBFCs play an important role in financial inclusion and availability of banking services in remote areas in the various regions is pre-requisite to provide services to the underserved customer segments. As per experience, we have seen that the respective banks have strong regional presence and the NBFCs need to utilize their services to penetrate better in the respective regions. Further, with consortium arrangement amongst the banks, there is much stronger supervision and oversight on the functioning of the NBFC and from last year, banks are having continuous account monitoring in large exposures through appointment of independent CA firms by the banks and direct reporting to the banks' credit monitoring cell and it takes care of compliance requirements of funds being routed through the consortium of banks.

Further, allowing Current Accounts with specific purposes, like loan disbursement is critical for NBFCs, as it helps in providing clear visibility on usage of funds. The designated accounts may also be linked with the IT systems to automate accounting entries, thereby preventing any risk of accounting frauds. In order to mitigate the risk of siphoning, the fund flow from these Current Accounts can be linked to a particular designated Cash Credit Account only.

In some entities, the loan disbursement also happens through the Remote Cheque mechanism whereby the payment data is uploaded by the NBFC centrally in the Bank's server on a consolidated basis and after charging the



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Current Account, the disbursement cheque is printed locally at the branches.

Considering the above, we seek relaxation of the above guidelines so that the NBFCs can play their meaningful role in the financial inclusion in deep corners of the states by availing the banking services of the banks having strong regional presence.

We request your kind consideration of our suggestions.

Thanking you,

Yours Faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

**MAHESH THAKKAR
DIRECTOR GENERAL
982003553**



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