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Reserve Bank of India (Urban Co-operative Banks – Fraud Risk Management) Directions, 2026

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Introduction

These Directions are issued with a view to providing a framework for prevention, early detection, and timely reporting of incidents of fraud by Urban Co-operative Banks to Law Enforcement Agencies (LEAs) and Reserve Bank of India (RBI) and dissemination of information by RBI and matters connected therewith or incidental thereto.

In exercise of the powers conferred under Section 21 and Section 35-A read with Section 56 of the Banking Regulation Act, 1949, and all other provisions / laws enabling RBI in this regard, RBI being satisfied that it is necessary and expedient in public interest so to do, hereby issues these Directions hereinafter specified.



Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks - Fraud Risk Management) Directions, 2026.
2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to Urban Cooperative Banks (hereinafter collectively referred to as 'UCBs' and individually as 'UCB').

For the purpose of these Directions, 'Urban Co-operative Banks' shall mean Primary Co-operative Banks as defined under Section 5(ccv) read with Section 56 of the Banking Regulation Act, 1949.

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:
 - (1) '*Date of Classification*', for the purpose of reporting under Fraud Monitoring Returns (FMR), is the date when due approval from the competent authority has been obtained for such classification, and the reasoned order is passed.
 - (2) '*Date of Detection*' to be reported in FMR, is the actual date when the fraud came to light in the concerned branch / audit / department of the UCB, as the case may be, and not the date of approval by the competent authority of the UCB.
 - (3) '*Date of Occurrence*', for the purpose of reporting under FMR, is the date when the actual misappropriation of funds has started taking place, or the event occurred, as evidenced / reported in the audit or other findings.



Chapter II - Governance and Oversight

A. Governance Structure for Fraud Risk Management

5. UCB shall put in place a Board approved policy on Fraud Risk Management delineating roles and responsibilities of Board / Board Committees and Senior Management of the UCB. The policy shall inter alia contain measures towards prevention, early detection, investigation, staff accountability, monitoring, recovery, and reporting of frauds.

In this context, 'Board' will refer to 'Board of Directors' of the UCB.

6. The policy shall also incorporate measures for ensuring compliance with principles of natural justice¹ in a time-bound manner, which at a minimum, shall include:

- (1) Issuance of a detailed Show Cause Notice (SCN) to the Persons (including Third Party Service Providers and Professionals, inter-alia, architects, valuers, chartered accountants, advocates and other professionals / service providers), Entities and their Promoters / Whole Time Directors (WTDs) and Executive Directors against whom allegation of fraud is being examined. The SCN shall provide complete details of transactions / actions / events basis which declaration and reporting of a fraud is being contemplated under these Directions. As non-Whole Time Directors (like nominee directors and independent directors) are normally not in charge of, or responsible to the company for the conduct of business of the company, the UCB may take this into consideration before proceeding against such directors under these Directions.

- (2) UCB shall provide a reasonable time of not less than 21 days to the Persons / Entities on whom the SCN was served to respond to the said

¹ Refer to the judgement of the Hon'ble Supreme Court dated March 27, 2023 on Civil Appeal No.7300 of 2022 in the matter of State Bank of India & Ors Vs. Rajesh Agarwal & Ors. and connected matters, read with the Order dated May 12, 2023 passed by the Hon'ble Supreme Court in Misc. Application. No.810 of 2023, specifically in relation to serving a notice, giving an opportunity to submit a representation before classifying Persons / Entities as fraud and passing a reasoned order. The orders of the Hon'ble High Court of Bombay dated August 7, 2023 in Writ Petition (L) No. 20751 of 2023 and the Hon'ble High Court of Gujarat dated August 31, 2023 in Special Civil Application No. 12000 of 2021 and connected matters shall be referred to.



SCN.

- (3) UCB shall have a well laid out system for issuance of SCN and examination of the responses / submissions made by the Persons / Entities prior to declaring such Persons / Entities as fraudulent.
- (4) UCB shall serve a reasoned Order on the Persons / Entities conveying its decision regarding declaration / classification of the account as fraud or otherwise. Such Order(s) must contain relevant facts / circumstances relied upon, the submission made against the SCN and the reasons for classification as fraud or otherwise.

Explanation: The requirement of ensuring compliance to the principles of natural justice is applicable to all Persons / Entities and their Promoters / WTD and Executive Directors classified as fraud by the UCB. In other words, this requirement is applicable in all cases of fraud classification which may have civil consequences (i.e., penal measures, caution listing) as observed in the Judgement of the Hon'ble Supreme Court dated March 27, 2023 (Civil Appeal No. 7300 of 2022 in the matter of State Bank of India & Ors. Vs. Rajesh Agarwal & Ors.).

7. The Board shall review the Fraud Risk Management policy at least once in three years, or more frequently, as may be prescribed by the Board.
8. **Special Committee of the Board for Monitoring and Follow-up of cases of Frauds:**

- (1) The UCB shall constitute a Committee of the Board to be known as 'Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCBMF) with a minimum of three members of the Board, consisting of the Chief Executive Officer and two directors, i.e. directors with suitable banking experience or with relevant professional qualification in the fields of law, accountancy or finance. The Committee shall be headed by one of the directors. The UCB categorised as Tier 1 & 2 for regulatory purposes {Refer to [Reserve Bank of India \(Urban Co-operative Banks – Licensing, Scheduling and Regulatory Classification\) Guidelines, 2025 dated](#)



[December 04, 2025](#)} shall have the option of constituting a Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be the Chief Executive Officer for the purpose of performing the roles and responsibilities of SCBMF as required under these Directions.

- (2) SCBMF shall oversee the effectiveness of the Fraud Risk Management in the UCB. SCBMF shall review and monitor cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of frauds. The Board of the UCB shall decide the coverage and periodicity of such reviews. The coverage may include, among others, categories / trends of frauds, industry / sectoral / geographical concentration of frauds, delay in detection / classification of frauds and delay in examination / conclusion of staff accountability.
 - (3) The Board of the UCB shall decide the threshold amount of fraud cases to be placed before the SCBMF / CoE, after duly taking into account the scale and complexity of its operations.
9. The Senior Management shall be responsible for implementation of the fraud risk management policy approved by the Board of the UCB. The Senior Management of the UCB shall also place a periodic review of incidents of fraud before Board / Audit Committee of Board (ACB), as appropriate.
 10. The UCB shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in account(s) are examined and concluded appropriately under its Whistle Blower Policy.
 11. The UCB shall set-up an appropriate organisational structure for institutionalisation of fraud risk management within its overall risk management functions / department. Fraud Risk Management includes prevention, early detection, investigation, staff accountability, monitoring, recovery, analysis, reporting of frauds. and other related aspects under the Board approved policy. A sufficiently senior official shall be responsible for monitoring and reporting of frauds.



Chapter III - Framework for Early Warning Signals for Detection of Frauds

A. Governance Structure

12. The UCB categorised as Tier 3 & 4 (i.e. Applicable UCB for the purpose of this Chapter) shall have a framework for Early Warning Signals (EWS) under the overall Fraud Risk Management policy approved by the Board.
13. A Board Level Committee i.e., Risk Management Committee or any other Committee having similar functions, shall oversee the effectiveness of the framework for EWS. The Senior Management shall be responsible for implementation of a robust Framework for EWS within the Applicable UCB.
14. Applicable UCB shall identify appropriate early warning indicators for monitoring credit facilities / loan accounts and other banking transactions. These indicators shall be reviewed periodically for their effectiveness. Suspicion of fraudulent activity thrown up by the presence of one or more EWS indicators shall alert / trigger deeper investigation from potential fraud angle and initiating preventive measures.
15. The EWS framework shall be subject to suitable validation in accordance with the directions of the Board Level Committee so as to ensure its integrity, robustness and consistency of the outcomes.
16. The Early Warning Signal Framework shall provide for, among others:
 - (1) A system of robust EWS which is integrated with Core Banking Solution (CBS) or other operational systems;
 - (2) Initiation of remedial action on triggers / alerts from EWS System in a timely manner; and
 - (3) Periodic review of credit sanction and monitoring processes, internal controls and systems.
17. Applicable UCB shall put in place / suitably upgrade its existing EWS system on an ongoing basis.



B. Early Warning Signal Framework for Credit Facilities / Loan Accounts

18. The EWS system shall be comprehensive and designed to include both the quantitative and qualitative indicators to make the framework robust and effective. The broad indicators which the EWS system may illustratively capture could be based on the transactional data of accounts, financial performance of borrowers, market intelligence and conduct of the borrowers.
19. Generation of EWS alert(s) / trigger(s) shall necessitate examination whether the account needs to be investigated from potential fraud angle.

C. Early Warning Signal Framework for Other Banking / Non-Credit Related Transactions

20. Applicable UCB shall develop / strengthen its EWS system by identifying suitable indicators and parameterising them in its EWS system for monitoring other banking / non-credit related transactions. Applicable UCB shall strive to continuously upgrade the EWS system for enhancing its integrity and robustness, monitor other banking / non-credit related transactions efficiently and prevent fraudulent activities through the banking channel. Further, the effectiveness of EWS system shall be tested periodically.
21. The design and specification of EWS system shall be robust and resilient to ensure that integrity of system is maintained, personal and financial data of customers are secure and transaction monitoring for prevention / detection of potential fraud is on real-time basis or with a minimum time lag without compromising the effectiveness of the outcome of EWS system in prevention / detection of potential frauds. Applicable UCB shall remain vigilant in monitoring transactions / unusual activities, specifically in the non-KYC compliant and money mule accounts, so as to contain unauthorised / fraudulent transactions and to prevent misuse of banking / financial channel.
22. The dedicated MIS Unit or other Analytics Setup in Applicable UCB shall extensively monitor and analyse financial transactions, including transactions carried out through digital platforms / applications, in order to identify unusual patterns and activities which could alert the Applicable UCB in time for initiating appropriate measures towards prevention of fraudulent activities.



Chapter IV - General Instructions

A. Credit facility / Loan account / Other banking transactions - Indication of fraudulent activities

23. The UCB shall monitor activities in credit facility / loan account / other banking transactions and remain alert on activities which could potentially turn out to be fraudulent.
24. In cases where there is a suspicion / indication of wrongdoing or fraudulent activity, the UCB shall use an external audit or an internal audit as per their Board approved policy for further investigation in such accounts.
25. UCB shall frame a policy on engagement of external auditors covering aspects such as due diligence, competency and track record of the auditors, among others. Further, the contractual agreement with the auditors shall, *inter alia*, contain suitable clauses on timeline for completion of the audit and submission of audit report to the UCB within a specified time limit, as approved by the Board.
26. The loan agreement with the borrower shall contain clauses for conduct of such audit at the behest of lender(s). In cases where the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, UCB shall conclude on status of the account as a fraud or otherwise based on the material available on its record and its own internal investigation / assessment in such cases. The UCB shall ensure that principles of natural justice are strictly adhered to before classifying / declaring an account as fraud (refer to Paragraph 6).
27. The UCB (in case of sole lending, multiple banking arrangement or consortium lending) shall ensure that the principles of natural justice (refer to Paragraph 6) are strictly adhered to before classifying / declaring an account as fraud.
28. In case an account is identified as a fraud by any UCB, the borrowal accounts of other group companies, in which one or more promoter(s) / WTDs are common shall also be subjected to examination by the Regulated Entities (REs) concerned from fraud angle under these Directions.



29. In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, the UCB shall follow the process of classification of account as fraud as per their Board approved policy and in tune with the process as given under Paragraph 6 above.

B. Independent Confirmation from Third-party Service Providers including Professionals

30. The UCB places reliance on various third-party service providers as part of pre-sanction appraisal and post-sanction monitoring. Therefore, the UCB may incorporate necessary terms and conditions in its agreements with third-party service providers to hold them accountable in situations where wilful negligence / malpractice by them is found to be a causative factor for fraud.

C. Staff Accountability

31. The UCB shall initiate and complete the examination of staff accountability in all fraud cases in a time-bound manner in accordance with its internal policy.
32. In cases involving very senior executives of the UCB (MD & CEO / Chief Executive Officer / Executives of equivalent rank), the ACB shall initiate examination of their accountability and place before the Board. Such executive shall not participate in the meeting of the Board / ACB / SCBMF in which their accountability is to be considered.

D. Penal Measures

33. Persons / Entities classified and reported as fraud by the UCB and also Entities and Persons associated with such Entities, shall be debarred from raising of funds and / or seeking additional credit facilities from financial entities regulated by RBI, for a period of five years from the date of full repayment of the defrauded amount / settlement amount agreed upon in case of a compromise settlement.

Explanation:

- (1) If it is an Entity, another Entity will be deemed to be associated with it if that Entity is (i) a subsidiary company as defined under clause 2 (87) of the Companies Act, 2013 or (ii) falls within the definition of a 'joint venture' or



an 'associate company' under clause (6) of Section 2 of the Companies Act, 2013.

- (2) In case of a Natural Person, all entities in which she / he is associated as promoter, or director, or as one in charge and responsible for the management of the affairs of the entity shall be deemed to be associated.

34. Lending to such Persons / Entities, being commercial decisions, the lending UCB shall have the sole discretion to entertain or decline such requests for credit facilities after the expiry of the mandatory cooling period as mentioned at Paragraph 33 above.

E. Treatment of Accounts under Resolution

35. In case an entity classified as fraud has subsequently undergone a resolution either under Insolvency and Bankruptcy Code, 2016 (IBC) or under the resolution framework of RBI², resulting in a change in the management and control of the entity / business enterprise, the UCB shall examine whether the entity shall continue to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan under Insolvency and Bankruptcy Code, 2016 (IBC) or aforesaid resolution framework. This would, however, be without prejudice to the continuance of criminal action against erstwhile promoter(s) / director(s) / person(s) who were in charge and responsible for the management of the affairs of the entity / business enterprise.
36. The penal measures as detailed in Paragraphs 33 and 34 shall not be applicable to entities / business enterprises after implementation of the Resolution Plan under Insolvency and Bankruptcy Code, 2016 (IBC) or aforesaid resolution framework.
37. The penal measures detailed in Paragraphs 33 and 34 shall continue to apply to the erstwhile promoter(s) / director(s) / persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

² [Reserve Bank of India \(Urban Co-operative Banks – Resolution of Stressed Assets\) Directions, 2025.](#)



Chapter V - Reporting of Frauds to Law Enforcement Agencies

38. The UCB shall immediately report the incidents of fraud to appropriate LEAs viz. State Police authorities, subject to applicable laws³.
39. The UCB shall establish suitable nodal point(s) / designate officer(s) for reporting incidents of fraud to LEAs and for proper coordination to meet the requirements of the LEAs.

³ Under Section 33 of Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS), a person is not mandatorily required to report to LEAs information on commission of all offences, but only on those offences which are listed in that Section. The UCB is, however, advised to mandatorily report incidents of fraud involving an amount of ₹1 lakh or more to LEAs.



Chapter VI - Reporting to Reserve Bank of India

A. Reporting of Incidents of Fraud

40. To ensure uniformity and consistency while reporting incidents of fraud to RBI through Fraud Monitoring Returns (FMRs) using online portal, the UCB shall choose the most appropriate category from any one of the following:

- (1) Misappropriation of funds and criminal breach of trust;
- (2) Fraudulent encashment through forged instruments;
- (3) Manipulation of books of accounts or through fictitious accounts, and conversion of property;
- (4) Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation;
- (5) Forgery with the intention to commit fraud by making any false documents / electronic records;
- (6) Wilful falsification, destruction, alteration, mutilations of any book, electronic record, paper, writing, valuable security or account with intent to defraud;
- (7) Fraudulent credit facilities extended for illegal gratification;
- (8) Cash shortages on account of frauds;
- (9) Fraudulent transactions involving foreign exchange;
- (10) Fraudulent electronic banking / digital payment related transactions committed on UCBs; and
- (11) Other type of fraudulent activity not covered under any of the above.

B. Modalities of Reporting Incidents of Fraud

41. The UCB shall furnish FMR in individual fraud cases, irrespective of the amount involved, immediately, but not later than 14 days from the date of classification of an incident / account as fraud. Updates to the FMR shall be provided through



FMR Update Application (FUA).

42. The UCB shall adhere to the timeframe prescribed in these Directions for reporting of fraud cases to RBI. Delay in reporting of frauds, and the consequent delay in alerting other UCBs, could result in similar frauds being perpetrated elsewhere. The UCB must examine and fix staff accountability for delays in identification of fraud cases and in reporting to RBI.
43. While reporting frauds, the UCB shall ensure that persons / entities who / which are not involved / associated with the fraud are not reported in the FMR.
44. The UCB may, under exceptional circumstances, withdraw FMR / remove name(s) of perpetrator(s) from FMR. Such withdrawal / removal shall, however, be made with due justification and with the approval of an official at least in the rank of a director.
45. In cases where withdrawal of FMR / removal of name(s) of perpetrator(s) is necessitated due to Court directions, the UCB may arrange to withdraw FMR / remove name(s) of perpetrator(s) immediately. Such cases shall subsequently be placed before the official in the rank of WTD for information.

C. Closure of Fraud Cases Reported

46. The UCB shall close fraud cases using 'Closure Module' where the actions as stated below are complete:
 - (1) The fraud cases pending with LEAs / Court are disposed of; and
 - (2) The examination of staff accountability has been completed.
47. In all closure cases of reported frauds, the UCB shall maintain details of such cases for examination by auditors.



Chapter VII - Cheque Related Frauds - Reporting to Law Enforcement Agencies and Reserve Bank of India

48. To ensure uniformity and avoid duplication, reporting of frauds involving forged instruments, including fake / forged instruments sent in clearing in respect of truncated instruments, shall continue to be done by the paying banker and not by the presenting banker. In such cases the presenting bank shall immediately hand over the underlying instrument to the drawee / paying bank, as and when demanded, to enable them to inform LEAs for investigation and further action under law and to report the fraud to RBI.
49. However, in the case of presentment of an instrument which is genuine but payment has been made to a person who is not the true owner; or where the amount has been credited before realisation and subsequently the instrument is found to be fake / forged and returned by the paying bank, the presenting bank which is defrauded or is put to loss by paying the amount before realisation of the instrument shall file the fraud report with the RBI and inform the LEAs for investigation and further action under law.



Chapter VIII - Other Instructions

A. Legal Audit of Title Documents in respect of Large Value Loan Accounts

50. The UCB shall subject the title deeds and other related title documents in respect of all credit facilities of ₹1 crore and above to periodic legal audit and re-verification, till the loan is fully repaid. The scope and periodicity of legal audit shall be in accordance with the Board approved policy referred to in Paragraph 5 above.

B. Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies⁴

51. The UCB shall complete the investigation from fraud angle before transferring the loan account / credit facility to other lenders / Asset Reconstruction Companies (ARCs). In cases where the UCB conclude that a fraud has been perpetrated in the account, they shall report it to RBI before selling the asset to other lenders / ARCs. In cases where accounts are sold to ARCs, the UCB shall continue to report subsequent developments in such accounts to RBI, by obtaining requisite information periodically from the concerned ARCs.

C. Role of Auditors

52. During the course of the audit, auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account. In such a situation, the auditor should immediately bring it to the notice of the senior management and if necessary, to the ACB of the UCB for appropriate action.
53. Internal Audit in the UCB shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes in the fraud risk management framework of the UCB, including delay in reporting, non-reporting, conduct of staff accountability examination and prudential provisioning.

⁴ Reference is invited to the [Reserve Bank of India \(Urban Co-operative Banks - Transfer and Distribution of Credit Risk\) Directions, 2025](#).



Chapter IX - Reporting Cases of Theft, Burglary, Dacoity and Robbery

54. The UCB shall report instances of theft, burglary, dacoity and robbery (including attempted cases), to Fraud Monitoring Group (FMG), Department of Supervision, Central Office, Reserve Bank of India, immediately (not later than seven days) from their occurrence, in the prescribed 'Return on Bank Robberies, Dacoities, Thefts and Burglaries (RBR)' format through e-mail (doscofrmc@rbi.org.in). The format is available on [RBI website](#).
55. The UCB shall also submit a quarterly Return (RBR) on Bank Robberies, Dacoities, Thefts and Burglaries to RBI using online portal, covering all such cases during the quarter. This shall be submitted within 15 days from the end of the quarter to which it relates.



Chapter X - Repeal and Other Provisions

A. Repeal and Saving

56. With the issue of these Directions, the existing directions, instructions, and guidelines relating to Fraud Risk Management as applicable to Urban Cooperative Banks stand repealed, as communicated vide [circular no. DoS.CO.PPG.66/11.01.005/2026-27 dated July 31, 2026](#). The directions, instructions, and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above circular shall continue to remain repealed.
57. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
 - (2) any penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
 - (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of Other Laws not barred

58. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.



C. Interpretations

59. For giving effect to the provisions of these Directions or to remove any difficulties in the application or interpretation of the provisions of these Directions, RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by RBI shall be final and binding.

(C. Saravanan)
Chief General Manager