



ROYAL MONETARY AUTHORITY OF BHUTAN

2016

**RULES AND REGULATIONS FOR DEPOSIT-TAKING MICROFINANCE INSTITUTIONS IN
BHUTAN**

In pursuant to the power vested with the Royal Monetary Authority of Bhutan under Section 362 (e) of the Financial Services Act of Bhutan 2011, all Deposit-taking Microfinance Institutions shall comply with this Rules and Regulations.

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1 PRELIMINARY

1.1 Short Title

These Rules and Regulations shall be called the Rules and Regulations for Deposit-taking Microfinance Institutions (DTMFI) 2016. These Rules and Regulations shall be applicable to all Deposit-taking Microfinance Institutions licensed by the Authority and shall not extend to credit cooperatives.

1.2 Commencement

These Rules and Regulations shall come into effect from December 2016.

1.3 Rules of construction

In this Rules and Regulations unless the context indicates otherwise, the singular shall include plural and the masculine gender shall include the feminine gender hereafter.

1.4 Supersession

This Rules and Regulations shall supersede the provisions of the existing rules, Rules and Regulations, circulars, guidelines or notifications concerning inward remittances that are inconsistent with this Rules and Regulations.

1.5 Interpretation

The authority to interpret this Rules and Regulations shall vest with the RMA, which, if warranted, may issue such instruction and clarification from time to time as may be necessary to give effect and implement this Rules and Regulations.

1.6 Amendment

This Rules and Regulations may be amended in part, or in whole, by the Board/Executive Committee at its own discretion or based on the recommendation made by the Management/Department concerned.

2 Definition

In this Rules and Regulations the following terms shall have the meanings indicated unless the context clearly indicates otherwise:

- (a) “Act” means the Financial Services Act of Bhutan, 2011;
- (b) “Agent” means an entity that has been contracted by a DTMFI to provide financial services to the customers of a DTMFI on behalf of the DTMFI under a valid agency agreement;
- (c) “Authority” means the Royal Monetary Authority of Bhutan established under the Royal Monetary Authority Act of Bhutan, 2010;
- (d) “Company” means a parent company/a holding company, its subsidiaries and affiliates, and vice versa;
- (e) “Compulsory savings” means funds that must be contributed by a borrower of an institution as a condition for receiving a loan either as a percentage of the loan or as a nominal amount. The sum may be withdrawn by the borrower immediately upon repayment of the loan;
- (f) “Deposits” means a sum of money delivered for the purpose of safekeeping, possibly earning interest or similar return, repayable on demand or at a future time; except that a sum of money mobilized within a community-based group and only used by the same group shall not qualify as a deposit;
- (g) “Deposit taking microfinance business” means the business that consists of:
 - a. the regular receiving of deposits from the public; and
 - b. the using of such funds, either in whole, in part, or together with other funds, for the account and at the risk of the person conducting the business for:
 - (i) microloans; and
 - (ii) such other activities as the Authority has determined to be an authorized manner of using funds for the purpose of conducting deposit-taking microfinance business;
- (h) “Equity” means and includes paid-up capital, share premium, and general reserves of the DTMFI;
- (i) “Deposit-taking Microfinance Institution (DTMFI)” means a financial service provider that is –
 - i. licensed by the Authority,
 - ii. registered under the Companies Act 2000 and amendments thereto;

- iii. primarily conducts deposit-taking microfinance business; and
 - iv. not a Financial Institution
- (j) “Independent Director” is as defined in the Act;
 - (k) “Microloan” means a loan to a microfinance client of not more than Nu. 500,000.
 - (l) “Person” means a natural or a juridical person;
 - (m) “Records” includes ledger, daybooks, cash books, supporting documents and all other manual or magnetic/electronic records used in the business of the DTMFI;
 - (n) “Rural” means areas excluding the Thromdes and Yenlag Thromdes.

All other words and expressions used but not defined in these Rules and Regulations shall have the same meaning assigned to them in the Financial Services Act, 2011, unless the context otherwise requires.

3 License Application and Decision

Pursuant to Section 230 Financial Service Act 2011, no deposit-taking microfinance business shall be conducted in Bhutan except by a DTMFI licensed under this Rules and Regulations. DTMFI must be registered companies.

An application for a license to conduct deposit taking microfinance business shall be made in writing to the Authority and shall contain the following documents along with a non-refundable application fee of Nu. 15,000 in cash/draft/cheque in favor of the Authority:

- a. Letter of Application (Annexure I)
- b. Application Form (Annexure II)
- c. Biographical Report (Annexure III)

Application not complete in all respects and not conforming to the instructions specified in the Annexure II and III of these Rules and Regulations shall be given 60 days to complete the application in all respects and rectify the errors, if any. In case of non-submission within the above-specified period, the application shall be deemed invalid.

4 Minimum Capital and Ownership Requirement

4.1 Minimum Capital Requirements

- 4.1.1 A deposit-taking microfinance institution shall maintain a minimum paid-up capital of not less than Nu. 20 million or such other amount as prescribed by the Authority from time to time;
- 4.1.2 A DTMFI shall maintain a minimum capital adequacy ratio of at least 15%.
- 4.1.3 All instructions regarding the definition and calculation of paid-up capital, the capital adequacy ratio and risk-weighted assets that apply to banks shall apply in equal measure to DTMFIs

4.2 Ownership Requirements

- 4.2.1 No person shall hold more than 49 percent of interest in shares of a DTMFI.
- 4.2.2 For purposes of Section 4.2.1 a person (both national and foreign) can be an individual or a company. An individual and a company shall be as defined in the Act.
- 4.2.3 No DTMFI can have ownership in another DTMFI exceeding 5 percent of the paid-up capital of another DTMFI.

5 Corporate Governance

5.1 The Board of Directors

5.1.1 The Board of Directors of a DTMFI shall

- (a) establish the strategy and policies for a regulated entity's operations;
- (b) oversee the implementation of that strategy by management;
- (c) appoint senior management and define key responsibilities of senior management; and
- (d) approve (i) policies for oversight by senior management of subordinate staff and (ii) reporting relationships within the company; and

5.1.2 Size and Composition of the Board

- (a) The DTMFIs, while deciding the composition of the Board of Directors, shall ensure that the skill mix of the Board is compatible with the objectives, plans and functions of the DTMFI and that the Board would be in a position to give direction to the management and steer the DTMFI in the desired direction.
- (b) The Board of Directors shall comprise of at least five members, of which at least one is an independent director.

(c) The composition of the Board of Directors shall be such that at least one of the directors has extensive experience in microfinance, social work, or poverty alleviation and one in banking and finance.

(d) The Chief Executive Officer shall be one of the Board of Directors.

5.1.3 Restrictions on Board of Directors

(a) Not more than one member of a family (spouse, children and/or economically dependent persons) or a close relative (up to second generation) or an associate (partner, employee, director, etc.) should be on the Board of the DTMFI. No person who directly or indirectly holds more than 10% of the paid up capital of a DTMFI shall be eligible for the appointment as directors on a board of another DTMFI.

(b) No directors/employees of a DTMFI/FI is permitted to serve as a director of another DTMFI/FI.

5.2 The Chief Executive Officer

In line with Section 34 to 36 of the Act:

i. Every DTMFI shall appoint a chief executive officer who shall be:

(a) a natural person

(b) resident in Bhutan during the period of his appointment.

ii. A Chief Executive Officer of a DTMFI shall be a full-time employee and shall hold office for a period not exceeding five years at a time, subject to the approval by the Board of Directors.

iii. No Chief Executive Officer of a DTMFI is permitted to carry out any other business.

iv. The Chief Executive Officer shall lead the executive management to implement the Board of Director's plans.

5.3 Appointment of Board of Directors and Chief Executive Officer

5.3.1 Fit and Proper Criteria for the Board of Directors and Chief Executive

(a) All the Board Members and Chief Executive shall undergo and comply with the fit and proper test as prescribed by the Authority from time to time.

- (b) In addition to the requirements provided under 5.3.1(a), all DTMFIs, while selecting/recommending a person as board member/chief executive officer shall ensure that his/her loan account with any of the financial institutions is not classified as non-performing at any point of time;
- (c) In determining whether a person is a fit and proper person to hold any particular position or status, the person's honesty, respect for law, competence and qualifications for the position and any conflict of interest potentially detrimental to customers that might arise from his holding that position shall be considered. Where the person is not an individual, the fit and proper character of its control persons shall also be considered. Without limiting the generality of the foregoing provisions, a DTMFI has to comply with Section 32 of the Act, and in particular any evidence of the following may disqualify a person from being a director / chief executive officer:
- i. convicted of an offence involving fraud, dishonesty or violence;
 - ii. associated with any bankruptcy or financial loss due to his dishonesty, incompetence or malpractice in financial services or the management of companies;
 - iii. engaged in any business practices appearing to the Authority to be deceitful or oppressive whether unlawful or not; and
 - iv. removed or suspended by an order of a regulatory or supervisory authority from serving as a director, chief executive officer or other officers in any financial institution or corporate body in Bhutan and abroad.

5.3.2 Prior Approval

The DTMFIs shall submit Annexure III on the proposed Board Member(s) and/or Chief Executive Officer for approval to the Authority prior to the appointment of Directors and/or the Chief Executive Officer.

5.4 Internal Control

The DTMFI shall have an effective internal audit unit. The internal audit unit must be staffed with qualified personnel, whose main responsibilities should be to perform the traditional function of audit of the financial accounts as well as management audit. The Internal Auditor shall report directly to the Board of Directors and the Audit Committee.

The Audit Committee shall consist of not more than three members appointed by the Board, one of whom shall be independent Director. An independent director shall be the chairperson and shall not be the chairperson of any other committees.

5.5 Credit to Related Party

A DTMFI shall not extend credit to any of its related party. The related party shall have the same meaning as defined in the Prudential Rules and Regulations 2016.

5.6 Committees

Each DTMFI shall set up a Credit Committee and an Audit Committee which shall adopt internal policies and procedures for their functioning. DTMFIs can create other Committees if necessary.

5. Grant of License

- i. Only a licensed DTMFI shall be permitted to carry out the activities outlined in Section 15 of these Rules and Regulations in Bhutan.
- ii. The Authority shall grant a license to an applicant, only if the Authority amongst others is satisfied that:
 - a. The managerial capacity of the applicant is adequate to conduct the proposed operations;
 - b. The applicant will conduct its business in an honest and transparent manner and with the professional skills appropriate to the nature and scale of its proposed activities;
 - c. The applicant will conduct its business in a sound and prudent manner so as not to jeopardize performance of financial obligations;
 - d. The applicant will maintain adequate accounting and other records of its business with adequate systems of control; and
 - e. It will become economically sustainable within a period of three years.
- iii. After consideration of the documents and other investigations, the Authority if satisfied may issue an “In-Principle Approval”. This approval shall be valid for the period of three months. During this period, the applicant shall take all necessary preliminary measures specified therein. The issue of “In-Principle Approval” does not bind the Authority to issue a license to conduct business.
- iv. A company in respect of which an “In-Principle Approval” has been given should not commence business before the issue of a license.

Every advertisement, notice, etc. issued prior to the issue of the license should specify that it has not been issued a license to carry on deposit taking microfinance business.

- v. An applicant upon complying with the conditions specified in the “In-Principle Approval” may request the Authority to issue a license. The Authority being satisfied may issue a license to an applicant to carry on deposit taking microfinance business.

- vi. A DTMFI shall commence business within three months of issuance of a license.
- vii. A license issued by the Authority to the applicant is non-transferable and shall be valid for a period of one year.
- viii. A DTMFI from the year its starts generating profit shall pay an annual non-refundable renewal license fee as maybe determined by the Authority.

6. Cancellation and Suspension of License

i. With Notice

The license of a DTMFI may be cancelled or suspended, after due notice and after giving it a reasonable opportunity of being heard, if it:

- a) violates the provisions of the Financial Services Act of Bhutan 2011 or rules or Rules and Regulations, made there under;
- b) fails to furnish any information relating to his activities as a DTMFI as required by the Authority;
- c) furnishes wrong or false information; or conceals or fails to disclose material facts in the application submitted for obtaining a license;
- d) does not co-operate with any inspection or enquiry conducted by the Authority;
- e) fails to maintain the capital requirements in accordance with the provisions of these Rules and Regulations;
- f) fails to pay the fees to the Authority;
- g) violates the conditions of license; and
- h) does not carry out his obligations as specified in these Rules and Regulations.

ii. Without Notice

The license of a DTMFI may be cancelled or suspended without notice, if it:

- a) is found guilty of fraud, or is convicted of a criminal offence;
- b) commits such defaults, which require immediate action in the opinion of the Authority, provided that the Authority has communicated the reasons for the cancellation in writing; and
- c) has not commenced the business within three months of being granted a license.

7 Operational Policies and Credit Manual

A DTMFI shall:

- a) formulate an operational policy covering at a minimum the following areas: deposits, internal control, human resource, asset liability management, AML/CFT, and information technology;
- b) submit the operational policy to the Authority upon receiving the “In Principle Approval”.
- c) Formulate a credit manual covering at a minimum the following areas: borrower selection criteria, loan terms and amounts, asset classification and provisioning, loan monitoring and collection. A DTMFI shall submit the credit manual as part of licensing and as and when it is updated.

Prudential Rules and Regulations for Deposit Taking Microfinance Institution

8. Consumer Protection

8.1 Customer Grievance Cell

All DTMFIs shall set up a customer grievance cell to help and assist the customers as well as to handle customer complaints.

8.2 Complaint Procedures

8.2.1 A DTMFI shall set up effective procedures that allow customers to submit complaints. At a minimum, these procedures shall:-

- a) provide easily understood information about the customer care system, including the customer care contact number that should be easily accessible at least during normal business hours;
- b) allow for complaints to be lodged orally or in writing, but in each case the complaint must be lodged within a period of 30 days from the date of occurrence;

- c) be provided free of charge;
- d) provide for complaints to be resolved within sixty days of lodging.

8.2.3 A DTMFI shall acknowledge all complaints filed with them.

8.2.4 At the time of making a complaint the complainant shall be advised of the expected actions and timing for investigating and resolving the complaint.

8.2.5 DTMFI shall put in place processes to provide complainants with sufficient information and the means to inquire on the progress of complaints and such processes may include complaint reference numbers or other identifiers in order to facilitate timely and accurate responses to subsequent inquiries by complainants.

8.2.6 Complainants shall be advised of the outcome of the investigation of their complaint, and any resulting decision by the DTMFI.

8.2.7 Where a complainant is not satisfied with a decision reached pursuant to a complaint, the DTMFI shall give the complainant the option of pursuing an identified escalation process by which the decision may be examined by a suitably qualified person in the DTMFI's organization.

9 Maximum Exposure

9.1 The DTMFI shall develop internal policy to monitor the overall exposure of its borrowers so as to manage credit risk and also minimize the borrowers' over-indebtedness risk.

9.1.1 At the time of granting facility, DTMFIs shall obtain a credit information report from the Credit Information Bureau. The DTMFI shall ensure that total exposure of its clients does not exceed their total repayment capacity as determined under the criteria laid-out in the DTMFI's credit policy.

9.1.2 The DTMFI shall ensure that the loan amount is commensurate with the business requirements and repaying capacity of the borrower. The DTMFI shall also ensure that the loans equivalent to the maximum limit are extended only to those borrowers who have established track record of satisfactory repayment.

9.1.3 The DTMFI shall formulate well-defined credit policy covering inter alia maximum lending limits, basis for loan pricing, determination of borrowers' repayment capacity, repayment period, collaterals etc.

9.2 Limit on exposure to a single borrower:

The maximum number of microloans outstanding to a single borrower and its immediate family members at any time is two.

10 Asset Classification and Provisioning Requirements

10.1 Classification of Assets

On the basis of number of days interest or installment payments have been in arrears, credit exposures shall be classified into five categories: Standard; Watch; Substandard; Doubtful; and Loss. The classification shall be as follows:

- i. **Standard:** Payments/Installments are paid according to contractual agreement terms.
- ii. **Watch:** Loans in arrears (payments/installments overdue) for between 31 day and 90 days.
- iii. **Substandard:** Loans in arrears (payments/installments overdue) for between 91 and 180 days.
- iv. **Doubtful:** Loans in arrears (payments/installments overdue) for between 181 and 365 days.
- v. **Loss:** loans in arrears (payments/installments overdue) for more than 365 days. Credit exposures which are term expired, suspended or under litigation cases are also classified under the loss exposure category.

10.2 Non-performing Loans:

Loans classified as substandard, doubtful or loss, i.e. loans that are overdue by more than 90 days, are considered as Non-Performing Loans (NPLs).

10.3 Provisioning Requirements:

- i. **General Provision:** The DTMFI shall maintain a General Provision equivalent to 1% and 1.5% of the total principal outstanding under Standard and Watch categories respectively.
- ii. **Specific Provisions:** In addition to the general provision, the DTMFI shall make specific provisions against NPLs at the following rates:
 - (a) **Substandard:** 20% of outstanding principal;
 - (b) **Doubtful:** 50% of outstanding principal;
 - (c) **Loss:** 100% of outstanding principal.

10.4 Rescheduling / Restructuring of loans

- i) The DTMFI shall reschedule/restructure a loan as per the policy approved by their BOD. The rescheduled/restructured loans shall, however, remain in the same category unless serviced regularly for 3 months. The number of days overdue should be counted as if the loan had not been rescheduled/restructured.
- ii) A loan should not be rescheduled/restructured more than once.

10.5 Writing-off Non-Performing Loans (NPLs)

Only those loans with genuine repayment problems shall be written off by the Board of the DTMFI and report to the RMA. However, such write-off shall not extinguish the DTMFI's right of recovery of such written-off loans.

10.6 Non-accrual policy

Interest accrued on a credit exposure which is classified as a non-performing loan shall not be recognized as income, but shall be suspended and booked in a valuation reserve designated as "Interest-in-Suspense account." Thereafter, any payments received against the credit exposure must be first applied towards interest arrears, and the remaining balance, if any, towards the principal.

11 Liquidity Requirement

All DTMFIs shall maintain a Statutory Liquidity Ratio (SLR) of 10 percent of total liabilities excluding capital funds.

12 Appropriation of reserves

All DTMFIs must transfer a minimum of 25% of its annual profit after tax to the General Reserve Fund.

13 Restriction on certain types of transactions

The DTMFI shall not:

- i) without the prior approval of the Authority, enter into renting, auction and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members, beneficially own 5% or more of the equity of the DTMFI;
- ii) hold, deal or trade in real estate except for use of DTMFI itself and not in excess of 25 percent of its core capital.

14 Permissible activities

DTMFIs may engage in the following activities:

- i. Accepting deposits;
- ii. Extending credit;
- iii. Providing money transmission services;
- iv. Providing insurance services as an agent;
- v. Electronic banking, such as mobile, internet etc;
- vi. Technical assistance services complementary to microfinance;
- vii. Anything incidental to items (i)-(vi) or which the Authority may prescribe from time to time.

15 Investments of Funds in Securities

- i) DTMFI may only invest in securities of profit making companies and fixed assets which shall be notified to the Authority.
- ii) In addition, DTMFI may also acquire or hold shares of any body corporate. The maximum investment in a company shall not exceed 10% of paid-up capital of the DTMFI. For making investment in excess of the 10% limit, prior permission from the Authority shall be obtained.
- iii) In the aggregate, such investments shall not exceed 25 percent of the paid-up capital of the DTMFI.

16 Money Laundering

All DTMFIs shall comply with the AML/CFT Rules and Regulations 2015.

While considering proposals for extending microfinance facilities, the DTMFI shall make reasonable efforts to determine the true identity of its client and shall develop and implement effective procedures and methods for the purpose. All DTMFIs shall comply with the minimal KYC (Know your Customers) and other norms issued by the Financial Intelligent Unit of RMA.

17 Places of business of DTMFIs

17.1 No DTMFI shall, without prior written permission of the Authority, open branches and other places of business.

17.2 To ensure that there is no deviation from the core objective of the institution and to achieve the rural penetration target, every DTMFI shall carry out lending activities only in rural areas of the country. In addition, they may also use the services of the agents.

19. Reporting Requirements

19.1 Audit and submission of Accounts

The DTMFI shall get its books of accounts audited and submit a copy of the annual audited accounts to the Authority within three months of the close of the financial year.

19.2 Submission of Financial Returns

For off-site surveillance, the DTMFI shall submit to the Authority, the following reports by the end of the following month as per the format prescribed by the Authority:

Sl.No.	Type of report	Deposits taking MFIs
1	Balance sheet	Monthly
2	Income Statement	Monthly
4	Break down of deposits	Monthly
5	Statement of Sectoral classification	Monthly
6	Classification of loans and advances by Sector and repayment sector	Monthly
7	Liquidity Return	Monthly
8	Capital Adequacy	Monthly
9	Statement of 30 largest Depositors	Half- yearly
10	Statement of top 30 Borrowers	Half- yearly
11	Statement of top 30 Borrowers with multiple accounts	Half- yearly

20 Compliance Officer

20.1 Introduction

The main objective of requiring each DTMFI to appoint Compliance Officer is to check the level of compliance of laws, Rules and Regulations and rules within the institution and to streamline the present reporting system to the Authority. While the Compliance Officer may report to the Managing Director/CEO/Audit Committee on areas requiring compliance at intervals as may be specified by the institution, the issues pertaining to non-compliance should be reported to the Authority on a quarterly basis.

In addition to his/her normal discharge of duties and responsibilities, the Compliance Officer shall also be responsible for:

- i. implementing and complying with all matters relating to prudential Rules and Regulations, circulars and directives issued by the authority from time to time;
- ii. acting as a focal point of contact between the concerned DTMFI and the authority;
- iii. instituting a system whereby he/she can collect any information requested by the authority from various divisions/department of the respective DTMFI;
- iv. monitoring and confirming from the officer-in-charge of the respective division/department with regard to effective compliance of legislations, Rules and Regulations, directives and circulars on an on-going basis;
- v. undertaking measures when necessary to reflect the institution's compliance to Sl. No. (iv) above on an on-going basis;
- vi. collecting and compiling all information relating to financial returns, and then submitting to the authority;
- vii. checking the correctness and promptness of the reports being submitted to the authority; and
- viii. dealing with any queries or problems concerning the financial returns and compliance with the prudential norms.

20.2 Any change in the appointment of the Compliance Officer shall be only upon the prior approval of the RMA.

21 Penalty for Non-compliance

21.1 Penalties on violation of provisions of this Rules and Regulations

Any non-compliance to these Rules and Regulations by the DTMFI shall be subject to penalties as determined by the Authority from time to time.

22 Disclosure of Basic Terms & Conditions of Financial Products

22.1 Launching of New Products and Services

All DTMFIs must seek written approval from the authority prior to the introduction of new products and services to the public. Further, the DTMFIs are required to fulfill the prerequisite conditions listed below for the launching of the new products or services and furnish the details to the authority accordingly:-

- i. Board's approval on launching of new products/services
- ii. Adherence to principles on fair treatment of consumers which would include:
 - a. Disclosure to customers on terms and conditions associated with the product/service
 - b. Suitably trained staff to educate the customer on the product/service
- iii. Required to put in place adequate policies and procedures designed to ensure that the customer has practical understanding of products/services so as to meet the client's objectives. apropos

22.2 Pricing of DTMFI Products: Interest Rates

The DTMFI shall implement appropriate pricing policies, which ensure access to affordable financial services by the poor as well as operational and financial sustainability of DTMFI.

The DTMFI shall determine the rate of interest on deposits and on loans and advances. The deposit and lending rates may be revised from time to time with the approval of the respective Board of Directors and subsequent notification to the RMA. The approved rates and any revisions thereof must be publicly announced.

The Institutions will strive to gradually bring the rate down with operational efficiency.

22.3 Method of Interest Calculation

All financial institutions shall follow the Simple Daily Product Method for computation of interest on loans and advances.

22.4 Disclosure of Lending / Deposit Rates by DTMFIs

- 22.4.1 As the clients of DTMFIs are largely poor and illiterate, it is incumbent upon DTMFIs to facilitate the public in making informed decisions.
- 22.4.2 MFIs shall make adequate efforts to educate their clients on important terms and conditions of all their products including loans and savings. While making a complete disclosure of the lending and deposit rates of all their products in the contract/documents signed with their clients, DTMFIs' relationship officer shall also read out these terms before their clients.
- 22.4.3 MFIs shall also display important terms and conditions of their products on entrance/ or window of their branches.
- 22.4.4 MFIs shall also educate their customers about the charges as well as customer's obligations in respect of other services like ATM, micro-insurance etc.

22.5 Removal of Records

All records/documents of the DTMFIs shall be maintained for a period of ten years or be removed from its offices only with the prior written approval of the Authority.

22.6 Reconciliation of inter-branch accounts

The Entries booked in the Inter-Branch Accounts must be reconciled/cleared and taken to the proper heads of accounts within a period of 30 days from the date entry is made in the above-named accounts.

23 Confidentiality

The confidentiality of relations and dealings between a DTMFI and its customers is paramount in maintaining the DTMFIs reputation. Thus, staff and Directors must take every precaution to protect the confidentiality of customer information and transactions. No staff or Director shall divulge information regarding any customer, or any correspondence, accounts or dealings of the DTMFI or its customers, to any person other than administrative or judicial authorities.

DTMFIs shall report information to Credit Information Bureaus.

24 On-site Examinations of DTMFI

24.1 Authority to conduct on-site examinations

In accordance with Section 122 of the Financial Services Act of Bhutan 2011, Royal Monetary Authority of Bhutan shall conduct on-site examinations of each DTMFI at least once in two years. However if required, the examination can be more frequent.

24.2 Duty to give information

The DTMFIs are required to make available to the Examining Officers of RMA all the records and documents to enable them to ascertain the overall financial condition of the institution. Furthermore, the employees and officers of the DTMFI are required to provide such information concerning any aspects of the DTMFI's operations, which the Examining Officers may reasonably request to determine its safety and soundness.

24.3 Examination report

A copy of the Examining Officers' on-site report of examination shall be submitted to the Board of Directors and Executive Management of the financial institution and shall be discussed by the Board of Directors at its meeting immediately succeeding receipt of the report.

24.4 Acknowledgement of receipt of examination report

Each member of the Board of Directors shall acknowledge receipt and perusal of the report of examination on the form provided at the time of the Board Meeting.

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LETTER OF APPLICATION

The Hon'ble Governor
Royal Monetary Authority of Bhutan
Thimphu, Bhutan

Date:

Sub: Application to establish Deposit Taking Microfinance Institution in Bhutan

Hon'ble Dasho,

I/We would like to request for a license to establish Deposit-Taking Microfinance Institution in Bhutan under section 230 of Financial Services Act of Bhutan, 2011. I/We confirm and declare that all applications made by us/me are in full compliance with the DTMFI Rules and Regulations issued by the Authority. I/We further confirm and declare that I/we are satisfied to the best of our knowledge, information and belief that there is no information or statement nor is there any omission which would make our application false or misleading. I/We undertake to provide to Authority such information and documents as the Authority may reasonably require in relation to the application.

This application is made by the undersigned authorized person of(_____) pursuant to the authority granted to by written resolution of promoters passed on (_____).

For and on behalf of proposed company.

Yours faithfully,

Name:

Address:

Tel No:

Fax No:

Email:

Encl: Documents pertaining to the application including the resolution signed by all the promoters.

LICENSING APPLICATION FORM

(Please ensure that this form is filled properly. In case of any clarifications, please feel free to call or visit Financial Rules and Regulations and Supervision Department of Royal Monetary Authority).

In accordance to the Financial Services Act of Bhutan, 2011 an application form is required to be submitted by the applicant to the Authority for a license to conduct the Deposit-taking microfinance business in Bhutan.

NAME OF THE APPLICANT: _____
 ADDRESS : _____

 CONTACT ADDRESS : _____
 TELEPHONE NO : _____
 FAX NO : _____
 E-mail : _____

1. Instructions for filling up the form

- i. It is important that before this application form is filled in, the Rules and Regulations made by the Authority are studied carefully and understood in full.
- ii. Applicants must submit a duly completed application form together with all appropriate, supporting documents to the Authority.
- iii. Application for license will be considered only if it is complete in all respects.
- iv. Applicants should sign the application form.
- v. Information which needs to be supplied in more details may be given on separate sheets which should be attached to the application form.

2. Particulars of the Applicant:

i. Name of the Applicant :

ii. (A) Address - Principal Place of business / Registered Office.

Post Box Number: _____ Telephone No: _____

E-mail: _____ Fax No: _____

iii. Address for Correspondence:

Post Box Number: _____ Telephone No: _____

E-mail: _____ Fax No: _____

3. Capital Structure of the proposed DTMFI:

- i. Amount of Authorized Capital : _____
- ii. Amount of Issued Capital : _____
- iii. Amount of Paid-up Capital : _____

4. Shareholding pattern

- i. List of major shareholders (holding 10% and above of applicant directly or along with associates-applicable only to limited companies)
- ii. Share holding as on: _____

Name of shareholder	No. of Shares held	% of total paid up capital of the company

- iii. Three years audited accounts of the company, if applicable.

5. Organization Structure

- i. Status of the Applicant (e.g. limited company-Private/Public):

- ii. Date and Place of Incorporation:
Day Month Year Place

- iii. Copy of draft Article of Incorporation (final Articles of Incorporation to be submitted upon incorporation of the Company with the Registrar of Companies).

6. Business Information

- i. A business plan/feasibility report for a period of 3 years to be submitted along with the Organization Chart showing functional responsibilities.
- ii. Particulars relating to the significant owner, directors, principal officer of the company to be completed in the prescribed format Annexure A.
- iii. Any other information considered relevant to the nature of services rendered by the applicant.
- iv. Details of infrastructure like office space, equipment and manpower available with the applicant after the issuance of “In-Principle Approval”.

v. Declaration should be provided by the person nominated as the applicant, fund manager and all directors of the applicant company declaring that they were not associated with a company as a director or fund manager, whose registration as a fund management company was suspended or cancelled or refused by the Authority.

These declarations should be submitted separately by the Applicant, Fund Manager & each Director of the company.

DECLARATION

I, the undersigned, solemnly declare that the above information given in this application form and other documents submitted on behalf of the proposed DTMFI are true, complete and correct to the best of my knowledge and belief.

Should the Authority come across any inconsistencies on the information provided, I hereby agree to fully abide by the penalties as specified under Section 138 of the Financial Services Act of Bhutan 2011.

Further, I would like to pledge that if granted a license to conduct the business, the proposed company will not violate any laws and Rules and Regulations of the Authority.

Name:

Position:

Citizenship ID No:

(Please attest copy)

Signature (Affix Legal Stamp):

Date:

Witness:

Name:

Citizenship ID No:

(Please attest copy)

Occupation:

Signature:

BIOGRAPHICAL REPORT

1. Name:

2. Date of Birth:

3. Nationality (Please attach a copy):

Citizenship ID No:

Passport No (Non-Bhutanese):

4. Mailing Address:

Telephone No:

Mobile No:

Fax No:

E-mail:

5. Present Position:

Name and Address of the Firm:

Nature of Business:

Telephone No:

6. Other Position(s) (*if more than one, use additional sheets*):

Name and Address of the Firm:

Nature of Business:

Telephone No:

7. Marital Status:

Single ()

Married ()

Divorced ()

If married, Spouse's Name:

Spouse's Citizenship ID No:

Dependents:

Name	Relationship	Date of Birth (d/m/y)
_____	_____	_____
_____	_____	_____
_____	_____	_____

8. Father's Name:

Mother's Name

Date of Birth:

Date of Birth:

Occupation:

Occupation:

E-mail:

E-mail:

Mobile No:

Mobile No:

9. Education:

<u>Education</u>	<u>Name & Address of University/Institute</u>	<u>Year of attendance</u>	<u>Major area of study</u>	<u>Degree/Certificate granted</u>	<u>Date awarded</u>
Professional or Specialization					
University undergraduate					

10. Employment Record. (Use additional sheets, if necessary, and account for all gaps in employment).

Position held/ Department (Division)	Main responsibilities	Organization	Country	Duration
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

11. Status of the proposed appointment

Please tick the relevant box:

- Initial appointment
 Independent Director
 Re-appointment
 Non-independent Director

12. Do you have a license to practice any profession? Yes () No ()

If yes, give details:

- (a) Nature of license:
 (b) Date Issued:
 (c) license/Registration Number:
 (d) Licensing Agency and Address:

13. (a) If self-employed, describe each enterprise, including the name, address, license number, your percentage of ownership and the type of business which you own or control. (Control means ownership of 10% or more of the stock or ability to effectively control the management of the corporation or other entity).

(b) List names, addresses and percentage of control and/or ownership of other incorporators, partners, directors, or officers of the entity or corporation referred to above.

14.

<p>Are you employed in any professional capacity, or do you perform any services for or have any business connections with any institution which is subject to the supervision of the Royal Monetary Authority of Bhutan, or any other authority of the Royal Government of Bhutan?</p> <p>If “Yes”, indicate the name of the institution, address and nature of your work.</p>	<p>Yes No</p> <p>() ()</p>
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15.

<p>Have you had, or do you now have, any financial interest, direct or indirect, in any financial institution in Bhutan</p> <p>If “Yes”, give the name of the institution, address and nature of the financial interest.</p>	<p>Yes No</p> <p>() ()</p>
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16. Please tick whichever is relevant for the following questions below

	“Yes”	“No”	“N/A”
1. Do you have more than 5 years experience in banking, insurance, securities, finance, accounting, information technology & investment management	()	()	()
2. Were you declared insolvent and adjudicated bankrupt	()	()	()
3. Were you convicted by a court in any criminal offense or has been involved in any fraud/forgery, financial crime or other illegal activities	()	()	()
4. Are any of your loan account with financial institutions classified as non-performing at any point of time (loan default by 60 days).	()	()	()

17. Practicing accountants may be appointed as directors of financial institutions provided they are not employed or are not partners in an accounting firm, which has been engaged to conduct audit or consultancy work for that particular financial institution.

Are you a practicing accountant/consultant? () Yes () No

If “yes”, in what capacity?

18. Are you affiliated to any political party? () Yes () No

If “yes”, in what capacity?

19. Answer “Yes” or “No” to any of the questions below if they apply to you as an individual, or a partner, director or officer of a corporation except for minor traffic violations:

	Yes	No
a. Are any arrests, indictments, criminal information or other criminal proceedings now pending against you?	()	()
b. Were you ever convicted for any violations of the law?	()	()
c. Have you or has any partnership of which you were a CEO or a major owner (more than or equal to 10% of the capital of the company) ever been liquidated or judged bankrupt?	()	()
d. Has any business of which you were a director, officer, partner or major shareholder (10% or more of the voting shares) defaulted on his/her loan repayment?	()	()
e. Has any enterprise in which you were a partner, director or officer been the subject of criminal indictment or other criminal proceedings?	()	()

DECLARATION

I certify that I am aware that it is an offence under the Article 138 of the Financial Services Act 2011 to provide the Royal Monetary Authority any information which is false or misleading in a material particular.

I certify that the information given in the form above is complete and accurate to the best of my knowledge, information and belief and that there are no other facts relevant to this application of which the Royal Monetary Authority should be aware.

I also undertake that as long as I continue to be a Director, I will notify the Director of the Financial Rules and Regulations and Supervision Department of the Royal Monetary Authority of any material changes to, or affecting the completeness or accuracy of, the information given above as soon as possible, but in any event no later than 10 days from the day the changes come to my attention.

Further, I would like to pledge that as long as I continue to be a Director of the company, I will not violate any laws and Rules and Regulations of the RMA.

Name Position held

Signed Date

(Affix legal Stamp)

Witness

Name:

Citizenship ID No (please attest a copy)

Address:

Occupation:

Telephone No.

E-mail address:

Signature:

DRAFT