BEGUR & PARTNERS
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THE BEGUR BULLETIN

BANKING AND FINANCE

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HALF YEARLY REGULATORY UPDATE

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WELCOME TO THE BEGUR BULLETIN!

As we look back on April through September 2025, the RBI moved decisively to both codify and contemporize its rulebook. The first quarter saw master circulars consolidating decades of SHG linkage and minor account guidance, trimming punitive rates on CRR/SLR shortfalls, and rolling out far-reaching Digital Lending and Gold Loan Directions alongside refreshed LCR and Project Finance regimes. Even as it relaxed certain norms, such as FPI debt limits and NBFC MFI asset thresholds, it simultaneously tightened due diligence for AePS operators and broadened PSL exemptions under the Large Exposures Framework, all in service of robust inclusion and risk management.

Building on this momentum, the second quarter was marked by structural reforms across lending, investment, and payments. RBI introduced a uniform regime for prepayment charges, codified co-lending frameworks, harmonised norms on non-fund based facilities, and consolidated regulation of payment aggregators, while also liberalising international trade settlement in INR and overseas AT1 issuances. Operationally, continuous clearing in CTS, mandatory CIMS reporting, and streamlined claim settlement for deceased customers reflect the regulator's push for efficiency, transparency, and consumer protection. Together, these measures balance borrower relief with prudential safeguards, reinforcing systemic stability while deepening credit markets and digital finance infrastructure.

In this regulatory update, we explore these developments in the field of Banking & Finance, elaborating on their potential impact on stakeholders and discussing the efficacy of such developments.

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Enjoy reading, here's to staying informed, compliant, and capital-ready!

— Team Begur

RESERVE BANK OF INDIA

1. RBI CONSOLIDATES ALL EXTANT GUIDELINES FOR BANKS TO FACILITATE CREDIT LINKAGE WITH SELF HELP GROUPS (SHGS)

RBI vide master circular dated April 01,2025, consolidates all extant guidelines for banks to facilitate credit linkage with Self Help Groups (SHGs). The master circular has been issued with the intent to consolidate all existing RBI instructions and restating the regulatory framework as it stood up to March 31, 2025.

As such, the said master circular does not introduce any new guidelines or policy shifts. Its main value lies in providing a single, updated reference point by compiling numerous earlier circulars and directions into one document.

B&P View: While no *substantive policy changes* have been introduced through the said master circular, the reiteration of simplified processes, priority sector classification, and non-exclusion of SHGs due to individual defaults reinforces RBI's ongoing emphasis on deepening financial inclusion.

2. RBI PROVIDES INVESTMENT LIMITS FOR INVESTMENT IN DEBT AND SALE OF CREDIT SWAPS FOR FY 2025-26

RBI vide circular dated April 03, 2025, notifies the investment limits for Foreign Portfolio Investors (FPIs) in various categories of debt instruments for the financial year 2025–26.

The limits for FPI investments in Government Securities (G-Secs), State Government Securities (SGSs), and corporate bonds remain unchanged at 6%, 2%, and 15% respectively of their respective outstanding stocks. However, the absolute investment limits for each half-year have been revised upward in line with outstanding securities. The allocation ratio of incremental increases in the G-Sec investment limit between the 'General' and 'Long-term' sub-categories remains at 50:50, while the entire increase in SGSs is allocated to the 'General' sub-category.

The circular also maintains that FPI investments under the Fully Accessible Route (FAR) will continue as before. Furthermore, in line with earlier directions, a notional limit of INR 2.93 lakh crore has been set for Credit Default Swaps (CDS) sold by FPIs, equivalent to 5% of the outstanding corporate bond stock.

B&P View: This circular reflects the RBI's measured strategy to expand the debt markets while upholding regulatory prudence. It gives FPI participation more headroom without jeopardizing market stability by maintaining current percentage limits while raising absolute criteria.

3. RBI NOTIFIES REVISIONS IN THE BANK RATE W.R.T PENAL INTEREST ON SHORTFALL IN CRR AND SLR REQUIREMENTS

RBI vide its circular dated April 09, 2025, has notified a downward revision in the Bank Rate from 6.50% to 6.25%, with immediate effect. This revision is introduced pursuant to the announcement made in the Monetary Policy Statement 2025-26. It shall be noted that post this change, the penal interest rates applicable on shortfalls in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), which are directly linked to the Bank Rate, have also been revised.

The revised penal rates now stand at Bank Rate plus 3.0% (9.25%) and Bank Rate plus 5.0% (11.25%), reduced from the earlier 9.50% and 11.50%, respectively. These penal rates are applicable based on the duration of the shortfall in reserve maintenance by banks.

B&P View: RBI has reduced the penal rates with the aim at aligning regulatory penalties with the current monetary policy stance and offer a marginal relief to banks in terms of cost of non-compliance.

4. RBI PROVIDES ADDITIONAL GUIDELINES FOR OPENING AND OPERATION OF BANK ACCOUNT OF MINORS

RBI vide its circular dated April 21, 2025, has issued revised and consolidated guidelines w.e.f. July 01, 2025, governing the opening and operation of deposit accounts of minors. The said circular all the existing circular/guidelines/notifications on the subject matter of bank account of minors.

As per the said circular, minors of any age can open savings or term deposit accounts through their natural or legal guardians, including their mothers, while minors aged 10 (ten) years and above may be permitted to independently operate such accounts under conditions defined by individual banks' risk management frameworks.

In addition to this, banks are now permitted to provide additional banking services such as internet banking, ATM/debit cards, and cheque book facilities to minor account holders, provided the offerings align with the bank's internal risk and suitability policies. Upon reaching the age of majority, fresh instructions and specimen signatures must be obtained, and balances confirmed where the account was operated by a guardian. All such accounts must remain in credit at all times, and KYC and due diligence processes must be strictly followed.

B&P View: RBI's revised guidelines rationalize and liberalize the framework for minor deposit accounts by empowering minors (10+ years) to operate accounts independently and formally recognizing mothers as guardians, addressing past legal ambiguities. The move reflects a shift towards greater financial inclusion and autonomy for minors, while ensuring systemic safeguards through mandatory KYC, credit-only operation, and risk-based discretion for additional banking facilities.

5. RBI UPDATES LCR FRAMEWORK: REVISED HAIRCUTS AND DEPOSIT CLASSIFICATIONS EFFECTIVE APRIL 2026

RBI vide circular dated April 21, 2025, has revised the guidelines under the Basel III Framework pertaining to Liquidity Coverage Ratio (LCR), focusing on the treatment of High-Quality Liquid Assets ("**HQLA**") and the run-off rates for various categories of deposits. These changes aim to enhance liquidity resilience in the Indian banking system while aligning more closely with global standards and will be effective from April 01, 2026.

Following are key highlights under the said circular:

(a) **Higher Run-Off for IMB-Enabled Deposits**:
- Stable deposits with internet/mobile banking: 7.5% (up from 5%).
- Less stable deposits with internet/mobile banking: 12.5% (up from 10%).

(b) **Extension of Retail Treatment to SBCs**: Unsecured wholesale funding from non-financial small business customers (SBCs) will now follow the same treatment as retail deposits.

(c) **HQLA Valuation Change**: Government securities under Level 1 HQLA to be valued at current market value, adjusted for haircuts per LAF/MSF guidelines.

(d) **Pledged Non-Callable Deposits**: Deposits pledged as loan collateral (even if non-callable) will be considered **callable** for LCR purposes.

(e) **Reclassification of Deposits from Non-Financial Entities**: Deposits from trusts, AoPs, LLPs, partnerships, etc., now treated as from non-financial corporates, with reduced run-off rate of 40% (previously 100%).

(f) **Clarification on 'Other Legal Entities (OLEs)'**: OLE category restricted to funding from banks, FIs, insurance companies, and entities in the business of financial services.

B&P View: RBI's revised LCR guidelines mark a calibrated move to strengthen liquidity risk management by tightening run-off assumptions for digital retail deposits and rationalising the treatment of non-financial entity funding. By lowering run-off rates for such entities and refining HQLA valuation norms, the changes balance prudential safeguards with operational flexibility, aligning domestic norms more closely with international Basel III standards.

6. RBI ISSUES NEW MASTER DIRECTION FOR COMPOUNDING OF CONTRAVENTIONS UNDER FEMA

RBI, vide its Notification dated April 22, 2025, has issued a revised Master Direction titled *Master Direction – Compounding of Contraventions under FEMA, 1999*, thereby superseding the earlier version of the Master Direction (updated as on May 24, 2022). The revised Master Direction incorporates the amendments set out in Paragraph 5.4.II, as introduced through A.P. (DIR Series) Circulars dated April 22, 2025, and April 24, 2025.

The key changes introduced under the revised Master Direction are as follows:

(a) **Deletion of Paragraph 5.4.II(v):** The erstwhile provision, which permitted linkage of the compounding amount to a prior compounding order, has been omitted. Consequently, each instance of contravention shall now be assessed independently. Applicants will be required to file a fresh compounding application, and the compounding amount shall be determined de novo, without reference to any prior orders.

(b) **Insertion of Paragraph 5.4.II(vi):** A new provision has been introduced capping the maximum compounding amount at INR 2,00,000/- in respect of Category 5 contraventions, i.e., all other non-reporting-based contraventions.

B&P View: The amendments are a positive step toward a more transparent and fair compounding mechanism under FEMA. By mandating fresh assessments for each contravention and introducing a cap for minor violations, the RBI seeks to enhance procedural fairness, reduce ambiguity, and promote voluntary compliance without imposing disproportionate financial penalties.

7. RBI ISSUES MASTER DIRECTION ON FRAMEWORK OF INCENTIVES FOR

CURRENCY DISTRIBUTION & EXCHANGE SCHEME FOR BANK BRANCHES INCLUDING CURRENCY CHESTS

RBI vide its Master Direction dated April 24, 2025, has issued a consolidated and updated framework under the Currency Distribution and Exchange Scheme (“**CDES**”) to incentivize bank branches, including currency chests (CCs), for enhancing the quality and accessibility of currency management services to the public, in line with the ‘Clean Note Policy’. The scheme encourages the efficient exchange of soiled and mutilated notes, and distribution of coins, particularly in underserved and remote regions.

Following are the key highlights under the said framework:

(a) **Enhanced Incentives for Currency Chests in Remote Areas:**
- **Capital cost** reimbursement: Up to INR 50 lakh (100%) for new CCs in North Eastern and designated inaccessible/hilly regions.
- **Revenue cost** reimbursement: 50% for the first 5 years.

(b) **Incentives for Note Exchange Services:**
- INR 2 per packet for exchange of soiled notes (denomination INR 50 and below).
- INR 2 per piece for adjudicating mutilated notes.

(c) **Coin Distribution Incentives:**
- INR 65 per standard bag.
- Additional INR 10 per bag for rural/semi-urban distribution (with CA certificate).

(d) **Service Charges for Non-chest Branch Deposits:** INR 8/INR 5 per 100 pieces for deposits at large modern CCs / other CCs, respectively.

(e) **Pro-rata Sharing Mandate:** Currency chest branches must pass on incentives to linked branches based on contributions.

B&P View: The framework offers financial incentives and cost reimbursements to banks for specific services such as opening and operating CCs in difficult terrains, exchanging notes, distributing coins, and facilitating cash handling between linked and non-chest branches. It also stipulates the operational modalities for claiming such incentives, including documentation, invoicing, and audit mechanisms. The direction is a continuation of RBI’s effort to ensure clean currency availability while promoting financial inclusion and cash infrastructure development in remote areas.

8. RBI REPLACES THE 2022 DIGITAL LENDING GUIDELINES AND 2023 DEFAULT LOSS GUARANTEE GUIDELINES

Pursuant to the recommendations made by the “Working Group on Digital Lending”, RBI vide notification dated May 08, 2025, issued RBI (Digital Lending) Directions, 2025 (“**2025 DL Directions**”) and replaced the earlier frameworks in place i.e., Guidelines on Digital Lending 2022 and Guidelines of Default Line Guarantee 2023.

Under the 2025 DL Directions, the RBI has focused on providing detailed provisions to govern and regulate relationship between Regulated Entities (RE) and Lending Service Provider (LSP). Key provisions include mandatory contractual agreements for RE-LSP partnerships, disclosure of all loan offers by multi-lender LSPs, and strict norms for loan disbursement, requiring direct credit to the borrower's bank account and repayments directly to the RE. Borrowers shall be allowed a cooling-off period to exit loans without penalty, and all fees payable to LSPs must be borne by the RE.

The framework emphasizes robust customer protection, including detailed disclosures, grievance redressal mechanisms, and strict data privacy obligations with storage restricted to India. REs must also fulfil reporting obligations to Credit Information Companies and RBI's CIMS portal by June 15, 2025. Additionally, a defined structure for Default Loss Guarantee (DLG) arrangements is introduced, capping the guarantee at 5% of disbursed loans, limiting eligible participants, and mandating formal contractual arrangements and time-bound invocation procedures.

In addition to the key provisions, following are the additions introduced under the DL 2025 Directions:

(a) **Expanded Regulatory Scope:** Now includes 'all-India financial institutions', unlike the previous guidelines.

(b) **Strengthened DLG Framework:**
- Enhanced due diligence for DLG providers.
- Restrictions on DLGs in revolving credit, credit guarantee-backed loans, and NBFC-P2P facilitated loans.

(c) **Multi-Lender LSP Regulations:**
- Mandatory disclosure of all matched/unmatched lenders.
- Transparent and unbiased loan offer display.

(d) **Improved Reporting Infrastructure:**
- Mandatory registration of all DLAs via RBI's CIMS portal.
- In addition to credit bureau reporting.

(e) **Cooling-Off Period:** Reduced from 3 days to 1 day for all loans, regardless of tenor.

(f) **Customer Protection:** Mandatory grievance redress mechanisms and enhanced disclosure requirements on lender/LSP websites.

(g) **Enhanced Data Privacy:** Aligned with the Digital Personal Data Protection Act, 2023.

(h) **Phased Implementation:** DLA reporting: by June 15, 2025 and Multi-lender provisions: by November 1, 2025.

B&P View: The Reserve Bank of India's 2025 Directions on digital lending represent a significant regulatory overhaul aimed at ensuring greater transparency, accountability, and consumer protection in the fast-evolving digital lending ecosystem. These Directions unify and update earlier frameworks (2022 and 2023 Guidelines) by broadening the scope of coverage to include all-India financial institutions, strengthening the due diligence and compliance norms for Digital Lending Guidelines (DLG), and introducing explicit provisions for multi-lender arrangements, all while prioritizing consumer protection and data privacy.

9. RBI TIGHTENS ASSET COMPOSITION NORMS FOR NBFC-MFIS – 60% MICROFINANCE LOAN MANDATE

RBI vide circular dated June 06, 2025, has revised the qualifying assets criteria for Non-Banking Financial Companies - Microfinance Institutions (NBFC-MFIs). This amendment aligns the definition of "*qualifying assets*" with that of "microfinance loans" under the RBI's 2022 Master Directions. NBFC-MFIs are now required to ensure that at least 60% of their total assets (net of intangible assets) must qualify as microfinance loans at all times.

The circular further states that any NBFC-MFI failing to meet this requirement for 4 (four) consecutive quarters shall submit a remediation plan to the RBI for further evaluation. These changes take immediate effect, and the Master Directions of 2022 will be updated accordingly.

B&P View: By mandating a minimum 60% threshold of qualifying assets and aligning them strictly with the definition of microfinance loans, the regulator is tightening oversight and improving sectoral discipline. NBFC-MFIs must now ensure robust portfolio management and timely compliance to avoid regulatory intervention, particularly if they risk breaching the threshold over successive quarters.

10. RBI REVISES BANK RATE AND PENAL INTEREST ON CRR/SLR SHORTFALLS

RBI through circular dated June 06, 2025, has announced a downward revision in the Bank Rate from 6.25% to 5.75%, effective immediately. This move follows the announcement made in the Monetary Policy Statement 2025-26. As a consequence of this change, penal interest rates applicable to banks for shortfalls in maintaining Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), which are pegged to the Bank Rate, have also been revised.

Specifically, the penal interest on such shortfalls will now be Bank Rate + 3.0% (i.e., 8.75%) or Bank Rate + 5.0% (i.e., 10.75%), depending on the duration of the shortfall. This is a reduction from the earlier applicable rates of 9.25% and 11.25%, respectively, and aims to align penal provisions with the new monetary policy stance.

B&P View: This revision in the Bank Rate and corresponding penal interest rates reflects RBI's accommodative monetary policy stance aimed at easing financial conditions. The reduced penal rates offer marginal relief to banks facing temporary liquidity mismatches, thereby supporting more efficient reserve management within the banking system.

11. RBI ISSUES DIRECTIONS FOR RES FOR LENDING AGAINST GOLD AND SILVER COLLATERAL

RBI vide directions dated June 06, 2025, has issued a comprehensive framework regulating loans extended by banks and NBFCs against eligible gold and silver collateral for both consumption and income-generating purposes. These Directions apply to all Commercial Banks (excluding Payments Banks), Co-operative Banks, and NBFCs (including HFCs), with detailed procedures, risk controls, and consumer protection standards. The framework includes provisions around acceptable forms of collateral (jewellery, ornaments, coins), maximum permissible Loan-to-Value (LTV) ratios, valuation methods, limits on top-up loans, tenor restrictions for bullet repayment loans, and standardisation of processes across branches.

It mandates stringent operational and conduct requirements, including borrower presence during assaying, language-appropriate documentation, fair auction mechanisms, compensation for delays or losses, and enhanced internal audit and surprise verification processes. Notably, the framework prohibits loans against primary gold/silver or re-pledged collateral, requires same-day (or max 7 working days) collateral release post full repayment, and prescribes monetary compensation for service delays or collateral mishandling. Detailed public disclosures and repeal of earlier guidelines are also mandated to ensure compliance, transparency, and customer protection.

Following are the key highlights of the Directions:

(a) **Scope & Applicability**:

- Covers all loans backed by gold/silver jewellery, ornaments, or coins for consumption or income generation.
- Applicable to Commercial Banks, Co-operative Banks, and NBFCs (including HFCs).
- Must be complied with by April 1, 2026.

(b) **LTV Caps (Consumption Loans Only)**

- ≤ INR 2.5 lakh: Max LTV = 85%
- INR 2.5 lakh & ≤ INR 5 lakh: Max LTV = 80%
- INR 5 lakh: Max LTV = 75%
- LTV must be maintained throughout the loan tenor.

(c) **Operational & Compliance Highlights**

- Tenor cap of 12 months for bullet repayment loans (renewable after interest payment).
- Loan renewal/top-up allowed only if loan is standard and within permissible LTV.
- Loans against primary gold/silver or ETFs/MFs based on them are barred.
- Assaying, valuation, and documentation procedures to be standardised across all branches.
- Collateral to be handled/stored only in secured branches by employees.

(d) **Auction & Release Mechanism**

- Transparent auction process with minimum reserve price of 90% of value (85% if two failures).
- Same-day or within 7 working days collateral return post-loan closure.
- INR 5,000 per day compensation for delayed release due to lender's fault.

(e) **Customer Protection**

- Mandatory loan documentation in local language; explained orally to illiterate borrowers with third-party witness.
- Compensation for loss/damage of collateral during loan period.
- Unclaimed collateral after 2 years post repayment to be periodically traced and reported.

(f) **Disclosures & Oversight**

- Half-yearly board-level reporting of unclaimed collateral.
- Disclosure of gold/silver-backed loan data in financial statements.

B&P View: These Directions establish a robust, uniform, and borrower-friendly regulatory framework for loans against gold and silver collateral. By standardizing procedures, capping LTVs, enhancing transparency in valuation and auctions, and enforcing strict customer protection and compensation norms, these Directions aim to balance credit access with risk management and consumer interest.

12. RBI AMENDS LARGE EXPOSURES FRAMEWORK TO EXPAND PSL EXEMPTION SCOPE

RBI, through its circular dated June 9, 2025 has amended the Large Exposures Framework (LEF) to expand the scope of exemptions under exposure limits. Previously, only deposits maintained with

NABARD (National Bank for Agriculture and Rural Development) by banks, on account of their shortfall in meeting priority sector lending (PSL) targets, were excluded from exposure computation under LEF.

With this amendment, RBI has now extended the exemption to include contributions made by scheduled commercial banks to funds with other institutions such as NHB (National Housing Bank), SIDBI (Small Industries Development Bank of India), MUDRA Ltd., and any other entity specified by RBI, provided such contributions are made due to shortfalls in meeting PSL targets.

B&P View: RBI's amendment to the Large Exposures Framework provides regulatory clarity and relief to banks by expanding the scope of PSL-related exemptions. By including contributions to NHB, SIDBI, MUDRA Ltd., and other RBI-specified entities, the circular ensures consistent treatment of mandated PSL shortfall contributions across key financial institutions. This move supports banks in meeting priority sector obligations without impacting their large exposure limits, thereby facilitating more efficient capital and risk management.

13. RBI LIFTS RESTRICTIONS ON USE OF BRIPL RATINGS UNDER BASEL III CAPITAL REGULATIONS

The RBI, through its circular dated June 9, 2025, has lifted all earlier restrictions on the use of credit ratings provided by Brickwork Ratings India Private Limited (BRIPL) for capital adequacy purposes under the Basel III Capital Regulations. Banks can now fully utilize BRIPL's ratings without any limitations. All other provisions of the Master Circular on Basel III remain unchanged.

B&P View: This move restores full recognition to BRIPL as an eligible ECAI, enabling banks to freely use its ratings for capital adequacy computation. It signals RBI's confidence in BRIPL's rating practices following prior restrictions.

14. RBI AMENDS GUIDELINES TO SIMPLIFY REACTIVATION OF INOPERATIVE ACCOUNTS

RBI vide notification dated June 12, 2025, has amended its earlier 2024 circular concerning inoperative accounts and unclaimed deposits in banks to improve accessibility for customers seeking to reactivate such accounts. Per this notification, banks are now mandated to offer Know Your Customer (KYC) updation facilities at all branches, including non-home branches, for reactivating inoperative accounts.

Additionally, banks should strive to enable KYC through Video-Customer Identification Process (V-CIP) and may also use the services of authorized Business Correspondents to facilitate such reactivation. This amendment aims to streamline account reactivation and enhance financial inclusion.

B&P View: The RBI's latest amendment enhances customer access by enabling KYC updates at all branches, via V-CIP, and through Business Correspondents. These changes aim to promote easier reactivation of dormant accounts and strengthen financial inclusion.

15. RBI EASES KYC UPDATION NORMS TO BOOST ACCESSIBILITY AND FINANCIAL INCLUSION

The Reserve Bank of India (RBI) vide notification dated June 12, 2025, has issued revised instructions to simplify and accelerate the process of updation and periodic updation of Know Your Customer (KYC) records across Regulated Entities (REs) by permitting Business Correspondents (BCs) to assist in KYC updation. RBI has further urged banks to conduct targeted KYC camps in rural/semi-urban areas with high pendency. These revisions aim to enhance customer convenience and promote financial inclusion without compromising regulatory compliance.

B&P View: By broadening the channels for KYC updation and leveraging BCs and digital tools, RBI aims to streamline compliance, minimize disruption to beneficiaries, and ensure that banking services remain accessible to the most vulnerable segments of society.

16. **RBI NOTIFIES PROJECT FINANCE DIRECTIONS, 2025: A UNIFIED, RISK-CALIBRATED FRAMEWORK FOR INFRASTRUCTURE AND NON-INFRASTRUCTURE LENDING**

RBI, vide notification dated June 19, 2025, has introduced the Project Finance Directions, 2025, creating a unified regulatory framework for project financing, applicable from October 1, 2025. These directions apply to banks (excluding RRBs/Payments Banks), NBFCs, Housing Finance Companies, and select financial institutions. The framework is aimed at harmonizing project finance practices across sectors by emphasizing risk-based credit appraisal, early stress detection, and alignment with the Prudential Framework for Resolution of Stressed Assets, 2019.
The directions restructure the project lifecycle into design, construction, and operational phases, mandate milestone-based disbursement, and shift from a binary default approach to a more responsive credit event-based trigger system. Key norms include mandatory 90% financial closure before first disbursement, capped loan tenure (85% of project economic life), minimum lender exposure thresholds, and phased disbursements based on third-party certification and equity infusion. The guidelines also offer relaxation in provisioning norms and allow DCCO extensions under specified limits without automatic asset downgrade. Together, these reforms aim to improve underwriting discipline, reduce delays, and provide capital relief for compliant lenders.

Following are the key highlights of the directions:

(a) **Scope & Applicability**
- Effective from October 1, 2025.
- Applies to commercial banks (excluding RRBs/payments banks), NBFCs, HFCs, AIFIs, UCBs.
- Covers projects where ≥51% debt service is from project cash flows.

(b) **Phased Lifecycle-Based Framework**
- Divides project into: Design → Construction → Operation phases.
- Milestone-based disbursement and repayment linked to actual progress.
- Total loan tenor capped at 85% of project's economic life.

(c) **Credit Event-Based Monitoring**
- Replaces default-based system with credit event triggers (esp. during construction).
- Mandatory CRILC reporting (weekly/monthly).
- Resolution under Prudential Framework to be initiated within 30 days of event.

(d) **Sanction & Disbursement Conditions**

- 90% financial closure required before first disbursement.
- Land/ROW readiness:
  - 50% for PPP infrastructure,
  - 75% for non-PPP infra/non-infra,
  - Transmission lines – lender discretion.
- PPP projects: no fund disbursement before 'appointed date'; DCCO to align accordingly.
- Mandatory TEV study for exposures > INR 100 crore.

(e) **Exposure Thresholds**

- Projects ≤ INR 1,500 crore: each lender must hold ≥10%.
- Projects > INR 1,500 crore: each lender to hold ≥ INR 150 crore or 5%, whichever is higher.

(f) **DCCO Extensions Without Downgrade**

- Infra: up to 3 years; Non-infra (incl. CRE/CRE-RH): up to 2 years.
- Cost overruns up to 10% allowed without downgrade if metrics remain stable.
- Scope expansions up to 25%+ in project cost permitted with standard classification.

(g) **Provisioning Norms (For Delays)**

- Infra: 0.375%/quarter.
- Non-infra/CRE: 0.5625%/quarter. *(Significantly reduced from 2.5% suggested earlier in 2024 draft)*.

(h) **Data Governance**

- Maintain digital database of exposures.
- Must be updated within 15 days of material change.
- System implementation within 3 months from effective date.

B&P View: These directions are expected to reduce execution risks, promote disciplined underwriting, and unlock more sustainable long-term capital for India's ambitious infrastructure pipeline. For lenders and sponsors alike, the framework offers a clearer, more predictable regulatory environment, aligned with project realities and designed to enable smoother financial closures, reduced compliance friction, and improved credit outcomes.

17. RBI REVISES PRIORITY SECTOR LENDING NORMS FOR SMALL FINANCE BANKS

RBI has revised the Priority Sector Lending (PSL) norms applicable to Small Finance Banks (SFBs), effective from FY 2025-26. Previously, SFBs were required to allocate 75% of their Adjusted Net Bank Credit (ANBC) to PSL, with 40% earmarked for specific sub-sectors as per RBI guidelines and the remaining 35% allowed as flexible allocation to PSL segments where the bank had a competitive advantage. This framework was originally outlined under the 2014 and 2019 SFB licensing guidelines.

With this circular dated June 20, 2025, the RBI has reduced the overall PSL target for SFBs from 75% to 60% of ANBC or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher. The mandatory 40% allocation to specific PSL sub-sectors remains unchanged, but the flexible portion has been reduced from 35% to 20%, which must still be deployed in eligible PSL segments but may be chosen by the SFB based on its strategic focus. This move may be aimed at aligning SFBs' lending mandates more closely with risk management considerations and broader financial sector stability.

B&P View: The RBI's revision lowers the PSL mandate for SFBs from 75% to 60% of

ANBC/CEOBE, offering them greater operational flexibility. This shift is expected to support prudent credit allocation while ensuring continued focus on priority sectors.

18. RBI TIGHTENS NORMS FOR AEPS TOUCHPOINT OPERATORS TO CURB FRAUD

RBI vide notification dated June 27, 2025, has issued directions for enhanced due diligence and risk management pertaining to AePS Touchpoint Operators (ATOs) in order to address the increasing instances of fraud in Aadhaar Enabled Payment System (AePS) transactions. Effective from January 1, 2026, these directions require acquiring banks to conduct thorough KYC-based due diligence of all ATOs before onboarding, following the RBI's KYC Master Directions. Periodic KYC updates are also mandated, and re-verification is necessary if an ATO remains inactive for three consecutive months.

Further, acquiring banks must implement robust fraud risk management by actively monitoring ATO activities, setting and periodically reviewing risk-based operational parameters (e.g., transaction volume, location), and ensuring all technology integrations like APIs are restricted to AePS operations only. These measures aim to safeguard customer interests, enhance system security, and reinforce trust in AePS as a critical tool for financial inclusion.

B&P View: The new regulatory framework is a proactive step by the RBI to safeguard customers and preserve trust in the AePS ecosystem. By enforcing stricter KYC norms, transaction oversight, and technological safeguards, the RBI aims to ensure that AePS continues to serve as a secure and inclusive financial service platform, especially for rural and underbanked populations.

19. RBI ISSUES DIRECTIONS FOR PREPAYMENT CHARGES ON LOANS

RBI, vide its Prepayment Charges on Loans Directions, 2025 (notified on July 02, 2025, and operative w.e.f. January 01, 2026), has promulgated a uniform regulatory framework governing levy of prepayment/foreclosure charges. The measure seeks to obviate arbitrary, non-transparent, and anti-competitive practices historically adopted by regulated entities ("**REs**"), thereby strengthening borrower protection and enhancing credit market efficiency.

The said directions are applicable to all Scheduled Commercial Banks (excluding Payments Banks), Co-operative Banks, NBFCs (across layers), and All India Financial Institutions, and extend to all term and demand loan facilities sanctioned/renewed on or after the effective date. The regime imposes an absolute prohibition on levy of prepayment or foreclosure charges in respect of floating rate loans granted to individuals (including housing loans) and Micro and Small Enterprises (MSEs). Limited carve-outs are retained in relation to fixed-rate facilities, hybrid rate facilities (during the fixed phase), and certain structured/large-ticket credit exposures.

The said directions mandate that all applicable charges must be disclosed upfront in the loan documentation, sanction letters and Key Facts Statements. Further, charges once waived cannot be resurrected, unpaid charges cannot be capitalised or subjected to further levy, and penal charges must be segregated from "*interest income*" and booked under "*Other Income*." Certain categories such as foreign currency loans, export credit, trade credit and structured obligations continue to be governed by distinct regulatory dispensations and are expressly excluded.

B&P View: RBI provides substantive relief to retail and MSE borrowers, particularly under floating rate structures, by statutorily precluding foreclosure levies that otherwise impeded prepayment and refinancing. While ensuring transparency and curbing unjust enrichment by REs, the framework preserves lender autonomy in limited commercial contexts, thereby balancing borrower mobility, consumer protection, and asset-liability management considerations.

20. RBI FEMA (EXPORT OF GOODS & SERVICES) AMENDMENT REGULATIONS, 2025

The RBI vide its notification dated July 04, 2025, amended the Foreign Exchange Management (Export of Goods & Services) Regulations, 2025.

Key amendments introduced through this notification include revised timelines for realization and repatriation of export proceeds, updated reporting obligations on AD banks, and tightened documentation requirements for exporters availing extensions or write-offs.

Further, the notification reinforces that delays in realization, settlement through non-permitted modes, or non-reporting to the RBI's Export Data Processing and Monitoring System (EDPMS) may attract regulatory consequences. AD banks are mandated to exercise enhanced due diligence, ensure prompt reporting, and cannot regularise delayed cases without following prescribed RBI procedures.
B&P View: This amendment provides greater clarity and consistency in India's export compliance regime. While exporters are required to adhere to stricter timelines and reporting requirements, the framework also enhances operational clarity for AD banks in handling exceptions.

21. RBI RECOGNIZES CAREEDGE GLOBAL IFSC LIMITED AS ECAI UNDER BASEL III CAPITAL REGULATIONS

The RBI vide its notification dated July 10, 2025, has recognized '**CareEdge Global IFSC Limited**' as an External Credit Assessment Institution (ECAI) under the Basel III Capital Regulations. Pursuant to this recognition, ratings issued by CareEdge Global IFSC Limited may be used by banks and other regulated entities for assigning risk weights to exposures under the Standardised Approach to Credit Risk (SA-CR), subject to the ratings being public and compliant with RBI's prescribed methodologies.

B&P View: This inclusion enlarges the panel of RBI-recognised ECAIs and facilitates greater access to eligible external ratings, particularly for IFSC-linked exposures. While it provides operational flexibility and enhances competition in the credit rating space, regulated entities remain obligated to exercise due diligence and cannot substitute their internal credit assessment responsibilities with sole reliance on such external ratings.

22. RBI NOTIFIES UNIFORM REGIME FOR RE INVESTMENTS IN ALTERNATIVE INVESTMENT FUNDS

The RBI, vide its notification dated July 29, 2025, has issued the Reserve Bank of India (Investment in AIF) Directions, 2025, which will come into force on January 1, 2026 (or earlier if a RE decides). These Directions will supersede the prior RBI circulars of December 19, 2023, and March 27, 2024, as regards new investment commitments by REs in AIFs.

The Directions apply to investments by commercial banks (including small, rural, local area banks), primary/state/central co-operative banks, All-India Financial Institutions, and NBFCs (including HFCs) into units of AIFs. Key definitions include "*debtor company*" (a company to which the RE has, or had, a loan or investment exposure excluding equity, within the past 12 (twelve) months) and "*equity instrument*" (defined to include equity shares, compulsorily convertible preference shares, and compulsorily convertible debentures).

The Directions impose quantitative caps on RE investments which means that no RE may contribute more than 10% (ten percent) of an AIF's corpus, and the aggregate contribution by all REs in a scheme must not exceed 20% (twenty percent) of the corpus. If an RE's investment in an AIF that has downstream investments (other than in equity instruments) in a debtor company crosses 5% (five percent) of the AIF's corpus, the RE must make 100% (hundred percent) provision for its proportionate exposure via the AIF to that debtor company, subject to a cap of its direct exposure to the debtor company. Investments in subordinated units, in certain cases, will require that the entire investment be deducted from capital (Tier-1 and Tier-2) of the RE.

The Directions provide certain exemptions and transitional choices which provides that outstanding investments or prior commitments approved by RBI under earlier frameworks are excluded from the caps. For investments made before the effective date (or under existing commitments), an RE may choose to follow either the old circulars or the new Directions. Also, the RBI may, in consultation with the Government of India, exempt certain AIFs from the new Directions (excluding general requirements) by notification.

B&P View: These Directions liberalise the prior blanket prohibitions on REs' investments in AIFs with downstream debts, thereby granting greater operational flexibility to regulated entities, while simultaneously imposing prudential safeguards via caps, provisioning requirements, and due diligence. The framework strikes a balance, offering relief to REs (by permitting limited exposures) but preserving protective guardrails to prevent misuse (such as indirect exposure to debtor entities).

23. INTERNATIONAL TRADE SETTLEMENT IN INR - RELAXATION FOR OPENING SRVAS

The RBI, vide its circular dated August 05, 2025, has amended the framework for International Trade Settlement in Indian Rupees (INR) by liberalizing the regime for opening of Special Rupee Vostro Accounts (SRVAs). AD-I banks may now establish SRVAs for correspondent banks of partner countries without obtaining prior approval from the RBI, thereby removing a significant procedural bottleneck under the earlier circular of July 11, 2022. This change is operative with immediate effect.

The circular further mandates that while prior approval is dispensed with, AD-I banks remain responsible for compliance with all applicable regulations, due diligence, and reporting requirements.

B&P View: The measure is intended to further facilitate cross-border trade settlement in INR, deepen international acceptance of the rupee, and streamline operational flexibility for trade counterparties.

24. RBI ISSUES CO-LENDING DIRECTIONS, 2025

The RBI, vide its notification dated August 06, 2025, has issued Co-Lending Arrangements Directions, 2025, which will become operative from January 1, 2026 (or earlier if adopted internally by a RE).

These Directions supersede earlier RBI guidance limited to priority sector co-lending and provide a comprehensive legal and prudential framework for joint lending by commercial banks (excluding SFBs, LABs, RRBs), All-India Financial Institutions, and NBFCs (including HFCs). Loans under multiple banking, consortium lending, or syndication are expressly excluded.

At the heart of the Directions is the definition of a Co-Lending Arrangement (CLA) - an *ex ante* legal agreement between an originating RE and a partner RE to jointly fund a loan portfolio on predetermined risk–revenue sharing terms.

Key requirements include:

(a) minimum 10% (ten percent) retention of each individual loan on the books of every RE;

(b) charging borrowers a blended interest rate reflecting each RE's funding share, with transparent disclosure;

(c) separate contractual arrangements for fees to sourcing/servicing entities, which cannot operate as implicit guarantees or credit enhancements;

(d) recognition of default at borrower level across all REs;

(e) permissibility of Default Loss Guarantees (DLGs) only within capped limits; and (vi) operational controls such as escrow mechanisms, separate accounting, real-time information sharing, audit trails, grievance redressal, and full borrower disclosure of each RE's role.

Additional safeguards include requirements on accounting treatment of unrealised profits, deduction of such amounts from CET1 capital/net owned funds, and alignment with other RBI frameworks such as the Digital Lending Directions. Borrowers benefit from improved transparency, clarity on obligations, and protection from hidden charges, while lenders gain regulatory certainty and a level playing field.

B&P View: The Directions seek to institutionalise co-lending as a viable credit delivery channel while balancing prudential safeguards and borrower protection. Relief is afforded to borrowers through enhanced transparency and accountability, and to regulated entities by providing a codified framework that reduces regulatory ambiguity, promotes competition, and facilitates efficient credit flow.

25. RBI ISSUES NFB CREDIT FACILITIES DIRECTIONS, 2025

The RBI vide its notification dated August 6, 2025, has issued the Non-Fund Based Credit Facilities Directions, 2025 under its powers under the Banking Regulation Act, RBI Act, and National Housing Bank Act. These Directions become effective on April 1, 2026, or earlier at an RE's discretion per its internal policy.

The Directions consolidate, harmonise and streamline the regulatory structure governing non-fund based (NFB) credit facilities such as guarantees, letters of credit, and co-acceptances, across all regulated entities, thereby filling gaps and eliminating overlapping prescriptions from earlier circulars.

The Directions impose several important conditions and guardrails:

(a) REs must institutionalise a Board-approved credit policy for NFB facilities, covering credit appraisal, risk mitigation, internal controls, fraud prevention, monitoring and delegation of authority.

(b) Guarantees issued by REs must be irrevocable, unconditional and payable on demand, with well-defined invocation, settlement, tenor, charge structure and oversight.

(c) Aggregate and individual exposure ceilings are prescribed. For co-operative banks, unsecured guarantees are capped (e.g. total guaranteed obligations ≤ 5 % of total assets, unsecured portion ≤ 1.25 %).

(d) Co-acceptances are limited strictly to genuine trade bills and REs must maintain proper records, verifying goods receipt, etc.

(e) A major innovation is the introduction of Partial Credit Enhancement (PCE): REs may provide credit enhancement support to bonds issued by corporates, SPVs, NBFCs/HFCs (above certain size), and municipal bonds. The PCE is capped (for instance, 50% of bond issue) and subject to minimum rating pre-enhancement, prudent limits, and disclosure norms.

(f) The Directions also repeal multiple prior circulars relating to guarantees, co-acceptances and PCE to eliminate regulatory clutter and overlapping mandates.

B&P View: The Directions streamline earlier fragmented circulars and ensure uniformity, transparency and prudence in handling contingent credit facilities. While imposing stronger compliance obligations on REs, they provide relief and facilitation to corporates, project SPVs and municipal issuers by enabling access to capital markets through enhanced creditworthiness and freeing up bank lending capacity.

26. INTRODUCTION OF CONTINUOUS CLEARING AND SETTLEMENT ON REALISATION IN CHEQUE TRUNCATION SYSTEM (CTS)

The RBI, via Notification dated August 13, 2025, has mandated the transition of the Cheque Truncation System (CTS) from batch-based clearing to a continuous clearing and settlement on realisation framework. This change will be effected in two phases: Phase-1 from October 4, 2025, and Phase-2 from January 3, 2026.

As per the notification:

(a) Cheques will be presented continuously between 10:00 AM and 4:00 PM; images will be forwarded and processed continuously.

(b) Drawee banks must confirm (honour or dishonour) presented cheques continuously (positive/negative confirmation), with strict time limits (7:00 PM deadline in Phase-1, and a “T + 3 clear hours” standard in Phase-2) for confirmations.

(c) Settlement entries will occur hourly from 11:00 AM onwards based on confirmed cheques (or deemed approvals).

(d) Presenting banks must disburse payments to customers no later than one hour after settlement (subject to usual safeguards).

B&P View: This reform will strengthen the efficiency, speed, and transparency of cheque clearing. It benefits customers, who will receive funds faster, and banks/clearing participants, who must upgrade systems and processes. The onus lies on all banks participating in CTS (and the NPCI) to ensure readiness and inform customers ahead of implementation.

27. RESERVE BANK OF INDIA (KNOW YOUR CUSTOMER (KYC)) (2ND AMENDMENT) DIRECTIONS, 2025

The RBI, vide notification dated August 14, 2025, has introduced a second amendment to the Know Your Customer (KYC) Directions, 2016. The amendment is effective immediately upon notification.

Key changes which are introduced under the notification include:

(a) **Insertion of KYC FAQs**: The FAQs on KYC must now be made available via hyperlink as part of the Direction.

(b) **Special treatment for persons with disabilities (PwDs)**: The amendment mandates that applications for onboarding or periodic KYC updation involving Persons with Disabilities shall not be summarily rejected. each such case must be considered with application of mind, and reasons for rejection (if any) must be recorded.

(c) **Expansion of scope for "occasional transactions"**: The threshold for triggering KYC checks is extended to include occasional transactions aggregating to INR 50,000/- (Indian Rupees Fifty Thousand only) (whether single or multiple connected transactions) as well as international money transfers.

(d) **Aadhaar face authentication & inclusion in Explanation**: In the explanation to the direction on authentication, "Aadhaar Face Authentication" is expressly included.

(e) **Liveness check accommodation for special needs**: The liveness check (for biometric or facial verification) must not exclude persons with special needs; the amendment seeks to ensure inclusivity in biometric/KYC procedures.

(f) **Changes to the Appendix (list of prior directions):** The amendment also expands the appendix of prior circulars/directions that are to be read into the KYC Directions by inserting new serial numbers 205A and 206A referencing earlier DNBS / PD circulars.

B&P View: The 2025 amendment reinforces regulatory emphasis on inclusivity, procedural fairness, and transparency in KYC processes. It ensures that PwDs are not unduly disadvantaged in banking access. The relief is principally to customers requiring KYC, especially vulnerable groups like PwDs, by mandating non-arbitrary treatment and reasoned decision-making in rejection and enabling clearer procedural disclosures.

28. RETURNS - DEPARTMENT OF PAYMENT AND SETTLEMENT SYSTEMS - SUBMISSION IN CIMS

The RBI vide notification dated September 05, 2025, mandates that from August 2025 onwards, certain periodic returns must be submitted by entities in the payments space through the Centralised Information Management System (CIMS) portal. Specifically, the Internet Banking Return (R065) and Mobile Banking Return (R102) are to be filed monthly.

All Scheduled Commercial Banks (including Regional Rural Banks), Urban Co-operative Banks, State Co-operative Banks, District Central Co-operative Banks, Payment Banks, and Small Finance Banks are covered under this instruction.

Entities must ensure that their Admin Users in CIMS create the login credentials for those responsible for submission, and the returns are due by the 7th of the succeeding month (e.g., the return for August 2025 is to be filed by September 07, 2025).

The regulatory backing for enforcing this compliance arises from Section 12 read with Section 19 of the Payment and Settlement Systems Act, 2007. Non-compliance with the directive may attract penal consequences under the said Act.

B&P View: This notification strengthens the RBI's data-consolidation efforts and monitoring of digital banking operations by shifting submission of key returns into a centralized platform (CIMS). It enhances standardisation, oversight and ease of regulatory access. The directive primarily imposes procedural compliance on regulated banking and payments institutions, ensuring they align with RBI's infrastructure modernization and supervisory objectives.

29. RBI ISSUES MASTER DIRECTION FOR PAYMENT AGGREGATOR

The RBI vide its notification dated September 15, 2025, has issued the Master Direction on Regulation of Payment Aggregators, 2025 ("**Directions**"). These Directions consolidate the existing regulatory framework for domestic Payment Aggregators (PAs) and cross-border PAs (PA-CBs).

The Directions apply to all Payment Aggregators, both bank and non-bank, and cover entities providing services for domestic as well as cross-border digital payments. Non-bank PAs are required to obtain RBI authorisation and maintain prescribed minimum net worth thresholds, while bank PAs are automatically covered but must adhere to the operational and prudential norms. The framework mandates merchant due diligence, including full KYC verification, background checks, and monitoring to prevent financial crime, money laundering, and regulatory arbitrage.

A central feature is the escrow account mechanism. PAs must maintain segregated Inward Collection Accounts (InCA) and Outward Collection Accounts (OCA), depending on the flow of funds, with clear prescriptions on permitted credits, debits, settlement cycles, pre-funding, reconciliation, and audits. For PA-CBs, these accounts must be maintained separately to ring-fence cross-border inflows and outflows. RBI has also mandated that settlement timelines must be strictly adhered to, thereby ensuring that merchant funds are not unduly retained by intermediaries.

The Directions also set out detailed governance, risk management, and compliance obligations. PAs are required to establish Board-approved policies covering risk controls, merchant onboarding, dispute resolution, and compliance monitoring. Strict norms apply to outsourcing, grievance redressal, information security, cybersecurity incident reporting, and audit requirements. In case of PA-CBs, the regime requires additional safeguards for foreign exchange flows, FEMA compliance, and restrictions on currency conversion and withdrawal processes.

By subsuming earlier circulars (notably the October 2023 circular on PA-CBs), the RBI has harmonised the regulatory treatment of domestic and cross-border PAs. The 2025 Directions thus eliminate fragmented compliance requirements and ensure that all entities facilitating payment aggregation, irrespective of geography, are subject to a uniform regulatory architecture. This consolidation is expected to enhance regulatory certainty, reduce arbitrage, and strengthen supervisory oversight in the payments ecosystem.

B&P View: The Directions create a stringent compliance framework for all PAs, expanding RBI's regulatory perimeter to cover both domestic and cross-border aggregators. While they impose higher compliance costs on regulated entities, the framework provides material relief and protection to merchants and end-users by ensuring transparency, faster settlements, secure handling of funds, and accountability of intermediaries. The Directions also promote competition and reliability in the payment aggregation market while aligning India's regulatory regime with international best practices for digital payments.

30. RBI ISSUES DIRECTIONS FOR AUTHENTICATING DIGITAL PAYMENT INSTRUCTIONS

The RBI on September 25, 2025, issued the Authentication Mechanisms for Digital Payment Transactions Directions, 2025 ("**Directions**"), to prescribe standards for authenticating digital payment instructions.

The Directions come into force from April 1, 2026, and bind all Payment System Providers and Payment System Participants (banks and non-banks) dealing with domestic digital payment transactions, unless otherwise expressly exempted.

The Directions provides for the following key notifications:

(a) mandate at least 2 (two) distinct factors of authentication for digital payment transactions (except where expressly exempted) out of which at least 1 (one) of the factors must be dynamic (i.e., unique to each transaction).

(b) the authentication mechanism shall be robust, ensuring that compromising one factor does not compromise the other.

(c) Institutions shall adopt a risk-based approach, applying additional checks depending on the transaction's context, user behaviour, device attributes, etc.

(d) Issuers are obliged to ensure the integrity and security of authentication systems and must compensate customers in full for any losses arising from transactions effected without compliance.

(e) For cross-border transactions, while the general directions do not apply, card issuers must develop mechanisms by October 1, 2026, to authenticate non-recurring foreign card not present (CNP) transactions and adopt a risk-based protocol for cross-border CNP payments.

The Directions also supersede/repeal a

number of earlier circulars on security measures in card/CNP transactions.

B&P View: These Directions reinforce customer protection and systemic security by elevating minimum authentication standards across India's digital payments ecosystem. They place strict liability on issuers for non-compliance and strengthen resilience against fraud. The primary relief is to end users (customers) who will be better protected against unauthorized transactions, and to the payments infrastructure as a whole, through harmonisation of authentication norms across all players.

31. RBI ISSUES NEW DIRECTIONS ON CLAIMS SETTLEMENT FOR DECEASED CUSTOMERS

The RBI vide notification dated September 26, 2025, issued revised norms for Settlement of Claims in respect of Deceased Customers of Banks, 2025 ("**Directions**").

The Directions provides for the following key notifications:

(a) Banks are mandated to settle claims in respect of deposit accounts, safe deposit lockers, and articles in safe custody within 15 (fifteen) calendar days from the date of receipt of all required documents.

(b) Where there is a nominee or survivorship clause, payment to the nominee/survivor on proof of death will constitute full discharge of liability.

(c) For accounts without nomination, banks must follow a simplified procedure up to INR 15,00,000/- (Indian Rupees Fifteen Lakhs only) (INR 5,00,000/- (Indian Rupees Five Lakhs only) for co-operative banks, unless raised by them), relying on indemnities/undertakings instead of insisting on succession certificates. Claims above this threshold will require appropriate legal documents.

(d) In case of delays attributable to banks, compensation is prescribed – interest at not less than Bank Rate + 4% (Four percent) per annum on deposit claims and a penalty of INR 5,000/- (Indian Rupees Five Thousand) per day for locker/safe custody delays. Banks must also publish claim procedures on their websites/branches and report overdue cases to their boards.

B&P View: These Directions provides substantive relief to nominees, survivors, and legal heirs, ensuring faster access to deposits and locker contents while holding banks accountable for delays. It simplifies procedures, imposes strict timelines, and guarantees compensation, thereby strengthening consumer protection in banking.

32. RBI AMENDS INTEREST RATE NORMS: BORROWER OPTION FOR FIXED RATE, FLEXIBILITY FOR BANKS ON SPREADS

The RBI, vide notification dated September 29, 2025, has issued the Interest Rate on Advances (Amendment) Directions, 2025, amending the existing framework under the 2016 Directions, the Circular on Reset of Floating Interest Rate on EMI-based Personal Loans (August 18, 2023), and the FAQs issued on January 10, 2025. The amendments, effective October 1, 2025, are aimed at enhancing borrower choice and allowing banks flexibility in interest rate management while ensuring non-discrimination.

Key changes include: (a) Banks may now

reduce spread components earlier than the prescribed three-year period for customer retention, provided such reduction is on justifiable and non-discriminatory grounds, consistent with Board-approved policy; (b) Regulated Entities (REs) may provide borrowers the option to switch from floating to fixed rate loans at the time of interest reset, with policies to also stipulate the number of permitted switches during the loan tenor; and (c) FAQs have been aligned with this framework by clarifying the fixed-rate switch option and deleting redundant FAQs 4 and 5.

B&P View: The amendment strengthens borrower autonomy in loan structuring by enabling choice between floating and fixed rates while also equipping banks with calibrated flexibility to retain customers. It strikes a balance between consumer protection and prudent interest rate practices under the RBI's regulatory regime.

33. RBI AMENDS FRAMEWORK ON LENDING AGAINST GOLD AND SILVER COLLATERAL

The RBI, vide notification dated September 29, 2025, has issued the 1st Amendment to the Lending Against Gold and Silver Collateral Directions, 2025. The amendment clarifies the scope of permissible lending activities, particularly in response to market feedback, and modifies restrictions under Paragraph 12 of the original framework.

Under the revised provisions, lenders are prohibited from extending loans for purchase of gold or silver in any form (including ornaments, jewellery, coins, or gold/silver-backed financial assets such as ETFs or mutual funds) and from granting loans secured against primary gold or silver.

However, a limited carve-out has been introduced: Scheduled Commercial Banks and Tier 3 & 4 Urban Co-operative Banks may extend need-based working capital finance to borrowers that use gold or silver as raw material in manufacturing or industrial processing. In such cases, gold or silver may be taken as collateral, provided the finance is not used for investment or speculative purposes.

In addition, Annex 2 of the Directions has been expanded to incorporate earlier circulars on bank finance for purchase of gold (issued during 2012–13), thereby consolidating regulatory history under a single framework. The amendment takes effect from October 1, 2025, for lenders that have already adopted the Directions and for others, it is effective from the date of adoption as prescribed under Paragraph 4 of the principal Directions.

B&P view: The amendment strengthens the regulatory bar on speculative or investment-linked gold and silver financing while accommodating genuine business requirements of industries that utilise these commodities as raw materials. Relief is thus afforded to manufacturing and processing entities, whereas speculative demand through banking channels continues to be expressly curtailed.

34. BASEL III CAPITAL REGULATIONS – ELIGIBLE LIMIT FOR FOREIGN CURRENCY / OVERSEAS RUPEE PDIS IN AT1 CAPITAL

The RBI vide notification dated September 29, 2025, has issued the Basel III Capital Regulations - Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital - Eligible Limit for Instruments Denominated in Foreign Currency / Rupee Denominated Bonds Overseas, 2025.

With effect from October 1, 2025, banks may include such PDIs in Additional Tier 1 capital up to 1.5% (One Point Five percent) of Risk Weighted Assets (RWAs), calculated on the basis of the latest audited or limited-reviewed financials. This Direction expressly supersedes the earlier circular of October 4, 2021.

B&P View: The Directions are applicable to all banks governed by Basel III norms, including small finance banks, and are intended to provide enhanced flexibility for capital raising through overseas or foreign currency instruments while maintaining prudential caps. The measure thus liberalises the capital recognition framework, aligning regulatory treatment with evolving market needs and strengthening the ability of banks to diversify AT1 issuances across domestic and offshore markets.

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