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THE BEGUR BULLETIN

BANKING AND FINANCE

JANUARY - DECEMBER 2025

YEARLY REGULATORY UPDATE

WELCOME TO THE BEGUR BULLETIN!

During calendar year 2025, the Reserve Bank of India pursued a deliberate shift from incremental regulation to structural consolidation across the banking and financial sector. The year was marked by the systematic replacement of fragmented, legacy circulars with unified Master Directions and comprehensive regulatory frameworks applicable to banks, NBFCs, co-operative banks (urban and rural), and All-India Financial Institutions. Core areas addressed included credit risk management, income recognition and provisioning, capital adequacy, asset liability management, governance, outsourcing, KYC/AML, consumer conduct, and disclosures. This approach reflects a clear move towards principle-based, lifecycle supervision, with heightened accountability placed on boards and senior management rather than rule-by-rule compliance.

Alongside prudential harmonisation, RBI advanced market development and operational efficiency while preserving systemic safeguards. Key reforms during the year included liberalisation of the INR trade settlement framework, expansion of permissible uses of Special Rupee Vostro Accounts, rationalisation of export realisation and import payment processes, and targeted trade-related relief measures. Regulatory updates also extended to repo markets, securitisation and asset reconstruction, loan transfer mechanisms, and co-lending frameworks, aimed at improving transparency, liquidity, and risk distribution across the financial system without diluting prudential discipline.

Operational and conduct-focused reforms formed a complementary pillar of the 2025 agenda. Measures such as continuous CTS clearing, mandatory reporting under the Centralised Information Management System (CIMS), streamlined reconciliation under EDPMS and IDPMS, and simplified settlement of claims of deceased customers underscore an emphasis on supervisory visibility, data integrity, and consumer protection. Taken together, the January–December 2025 regulatory actions signal RBI’s transition to system-wide consolidation, balancing credit growth and market deepening with stronger governance, enhanced transparency, and tighter prudential oversight, thereby reinforcing financial stability while strengthening India’s financial infrastructure.

We value your thoughts and suggestions. If there is feedback on how we can improve The Begur Bulletin, we’d love to hear from you on communications@begurs.com. Your input helps us keep this platform insightful.

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

— Team Begur

RESERVE BANK OF INDIA

1. RBI ISSUES HARMONISED KYC AMENDMENT DIRECTIONS ACROSS REGULATED ENTITIES

RBI vide multiple notifications dated December 29, 2025, issued Know Your Customer (KYC) Amendment Directions across all major categories of regulated entities, including commercial banks, small finance banks, payments banks, NBFCs, urban and rural co-operative banks, regional rural banks, local area banks, asset reconstruction companies, and All-India Financial Institutions. The amendments align entity-specific KYC Directions with updated AML/CFT standards, operational clarifications, and uniform compliance expectations.

The amendments do not create parallel regimes but reinforce consistency across the regulated ecosystem.

B&P View: Rather than introducing new KYC philosophy, the December amendments complete RBI's 2025 exercise of harmonisation. The value of these changes lies in uniformity and supervisory consistency. For annual reporting purposes, a consolidated reference is appropriate, reflecting RBI's emphasis on system-wide AML alignment without fragmenting the narrative across entity-specific amendments.

2. RBI AMENDS FEMA REGULATIONS ON EXPORT AND IMPORT OF CURRENCY

RBI, vide the Foreign Exchange Management (Export and Import of Currency) (Amendment) Regulations, 2025 dated December 08, 2025, has amended the regulatory framework governing cross-border movement of currency. The amendments, inter alia, rationalise provisions relating to export and import of Indian currency and explicitly clarify the framework applicable to movement of Indian currency to and from Nepal and Bhutan.

The changes are intended to align operational practice with evolving cross-border trade and travel requirements, while retaining FEMA-level controls on currency movement.

B&P View: Though technical in form, the amendments have strategic relevance in the context of India's regional trade and currency-usage objectives. By refining the legal framework governing currency movement, particularly with neighbouring countries, the RBI reinforces regulatory clarity and consistency, supporting smoother cross-border transactions without diluting exchange-control discipline.

3. RBI ANNOUNCES CHANGES IN LIQUIDITY ADJUSTMENT FACILITY RATES

RBI, vide circular dated December 05, 2025, has announced changes to rates under the Liquidity Adjustment Facility (LAF), in line with the prevailing monetary policy stance. The revised rates apply to repo, reverse repo, and other LAF operations and take effect immediately.

The LAF continues to function as the primary instrument for managing short-term liquidity and transmitting monetary policy signals to the financial system.

B&P View: Changes to LAF rates are central to monetary policy transmission and system-wide pricing. While such revisions are periodic, their inclusion in an annual regulatory review is warranted as they directly influence funding costs, liquidity conditions, and market behaviour across banks and financial institutions.

4. RBI ISSUES MASTER DIRECTION ON RUPEE INTEREST RATE DERIVATIVES, 2025

RBI, vide notification dated December 08, 2025, has issued the Master Direction - Reserve Bank of India (Rupee Interest Rate Derivatives) Directions, 2025, superseding earlier fragmented guidelines governing the rupee interest rate derivatives (IRD) market. The Master Direction consolidates provisions relating to eligible instruments, market participants, hedging and trading permissions, risk management, accounting treatment, and reporting requirements across recognised trading platforms and OTC markets.

The framework aims to deepen the domestic derivatives market, enhance transparency, and align regulatory treatment with evolving market practices, while ensuring robust risk controls for regulated entities.

B&P View: The issuance of a consolidated IRD Master Direction is a significant market-development measure. By providing a single, coherent regulatory framework, RBI reduces interpretational ambiguity and facilitates broader, more disciplined participation in interest rate risk management. The Direction supports development of a resilient yield-curve ecosystem and complements RBI's broader objective of strengthening domestic financial markets.

5. RBI INTRODUCES STANDING LIQUIDITY FACILITY FOR PRIMARY DEALERS

RBI, vide circular dated December 05, 2025, has introduced a Standing Liquidity Facility (SLF) for Primary Dealers (PDs). Under the facility, eligible PDs may access overnight liquidity from RBI against eligible collateral, subject to prescribed limits and terms. The

SLF is positioned as a backstop liquidity arrangement, distinct from regular market operations.

The facility is intended to enhance liquidity assurance for PDs and support orderly functioning of the government securities market, particularly during periods of market stress.

B&P View The introduction of an SLF for PDs is a targeted but important market-stability measure. By institutionalising a liquidity backstop, RBI strengthens confidence in the G-Sec market and reinforces the role of PDs as market-makers. The facility reflects a calibrated approach to liquidity management, supportive without being distortionary, and merits inclusion in the annual round-up as a systemic safeguard.

6. RBI INTRODUCES COMPREHENSIVE FRAMEWORK FOR MANAGING RISKS IN IT OUTSOURCING BY AIFIs

RBI has issued the Reserve Bank of India (All India Financial Institutions – Managing Risks in Outsourcing) Directions, 2025 on 28 November 2025, prescribing an end-to-end governance and risk management framework for outsourcing of material IT services, including cloud computing, data centres, managed security services and payment-related infrastructure.

The Directions mandate Board-approved outsourcing policies, inventory of outsourced services, robust due diligence of service providers, contractual safeguards, audit and access rights, business continuity planning, exit strategies and heightened controls for cross-border and group outsourcing. Existing IT outsourcing arrangements must comply upon renewal or by April 10, 2026, whichever is earlier.

B&P View: The Directions materially elevate cyber resilience and third-party risk governance expectations for AIFIs, aligning them with systemically important regulated entities. Compliance readiness will require coordinated legal, IT and risk management intervention.

7. RBI CONSOLIDATES FRAMEWORK FOR TRANSFER AND DISTRIBUTION OF CREDIT RISK BY NBFCs

RBI has issued the Reserve Bank of India (Non-Banking Financial Companies – Transfer and Distribution of Credit Risk) Directions, 2025 on 28 November 2025, providing a comprehensive framework governing loan transfer, including assignment, novation, loan participation, and co-lending arrangements. The Directions prescribe uniform conditions for transfer of standard and stressed loans, mandate legal ownership transfer to the extent of economic interest transferred and restrict the use of credit enhancements and implicit support. A separate and detailed prudential framework has been introduced for co-lending arrangements, with deferred applicability from January 1, 2026. The

Directions replace multiple earlier guidelines and are effective upon publication.

B&P View: By consolidating disparate instructions into a single framework, RBI has brought greater clarity and discipline to secondary loan markets. NBFCs engaging in loan transfers and co-lending will need to reassess transaction structures, risk retention practices, and documentation standards to ensure compliance with the tighter prudential safeguards embedded in the new framework.

8. RBI ISSUES COMPREHENSIVE CREDIT RISK MANAGEMENT DIRECTIONS FOR NBFCs

RBI has notified the Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025 on 28 November 2025, introducing a consolidated framework for identification, measurement, monitoring, and control of credit risk by NBFCs. The Directions require NBFCs to adopt board-approved credit risk management policies covering credit appraisal, internal rating systems, exposure limits, monitoring of borrower-level and group exposures, and early warning mechanisms. Specific regulatory prescriptions have also been introduced in relation to exposure to credit default swaps (as users), mandatory adoption of Legal Entity Identifier (LEI) norms for specified borrowers and filing of security interests with CERSAI. The Directions apply on a scale-based, layer-wise basis and are effective immediately.

B&P View: The Directions materially raise supervisory expectations around credit underwriting discipline and portfolio-level risk monitoring. NBFCs will need to revisit credit policies, borrower due diligence frameworks, and exposure aggregation systems to ensure compliance, particularly in respect of connected counterparties and large exposures. The emphasis on LEI adoption and security registration also signals tighter regulatory scrutiny of transparency and enforceability of credit exposures.

9. RBI ISSUES KYC AND AML DIRECTIONS FOR ASSET RECONSTRUCTION COMPANIES

RBI has issued the Reserve Bank of India (Asset Reconstruction Companies – Know Your Customer) Directions, 2025 on 28 November 2025, setting out a dedicated KYC and AML/CFT framework for Asset Reconstruction Companies. The Directions align ARC obligations with the Prevention of Money Laundering Act, 2002 and prescribe requirements relating to customer identification, beneficial ownership, customer due diligence, record retention, transaction monitoring, and reporting to FIU-IND. The Directions come into force from the date of publication on RBI's website.

B&P View: The Directions bring ARCs fully within India's AML/CFT perimeter, recognising their expanded role in stressed asset resolution and secondary credit markets.

10. **RBI PRESCRIBES REPORTING FRAMEWORK FOR WILFUL AND LARGE DEFAULTERS BY ARCS**
RBI has notified the Reserve Bank of India (Asset Reconstruction Companies – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025 on 28 November 2025, mandating monthly reporting by ARCs of wilful defaulters and large defaulters to all Credit Information Companies. The Directions apply to accounts transferred to ARCs and are aimed at preventing further institutional finance to such borrowers across the regulated financial system. The framework is effective immediately.
B&P View: The Directions ensure continuity of borrower discipline and transparency even after loan transfers to ARCs.

11. **RBI ISSUES MASTER DIRECTIONS GOVERNING ASSET RECONSTRUCTION COMPANIES**
RBI has notified the Reserve Bank of India (Asset Reconstruction Companies) Directions, 2025 on 28 November 2025, providing a consolidated framework governing registration, governance, asset acquisition, resolution strategies, prudential norms, accounting, and disclosures for ARCs. The Directions replace multiple legacy circulars and apply with immediate effect.
B&P View: The master framework reflects RBI's intent to professionalize ARC operations and standardize stressed asset resolution practices.

12. **RBI ISSUES MISCELLANEOUS DIRECTIONS FOR NBFCs**
RBI has issued the Reserve Bank of India (Non-Banking Financial Companies – Miscellaneous) Directions, 2025 on 28 November 2025, consolidating residual and cross-cutting compliance requirements applicable to NBFCs across regulatory layers. The Directions apply, with specified carve-outs, to NBFCs, HFCs, CICs, P2P platforms, and other regulated entities, and come into force upon publication.
B&P View: The Directions harmonise baseline compliance obligations across diverse NBFC categories under the scale-based regulation framework.

13. **RBI ISSUES DIRECTIONS FOR MORTGAGE GUARANTEE COMPANIES**
RBI has notified the Reserve Bank of India (Mortgage Guarantee Companies) Directions, 2025 on 28 November 2025, introducing a comprehensive regulatory framework governing the registration, permissible activities, prudential norms, and governance standards applicable to Mortgage Guarantee Companies (MGCs). The Directions apply to all MGCs registered with RBI and align their regulation with the scale-based regulatory framework applicable to NBFCs. MGCs are required to comply with capital adequacy norms, concentration risk limits, governance

requirements, outsourcing norms, KYC obligations, and disclosure standards as prescribed under the Directions, in addition to other applicable NBFC directions. The Directions come into force with immediate effect.

B&P View: The framework brings regulatory clarity and supervisory consistency to mortgage guarantee activity, recognising its growing role in housing finance and credit risk mitigation.

14. **RBI CONSOLIDATES REGULATORY FRAMEWORK FOR CORE INVESTMENT COMPANIES**

RBI has notified the Reserve Bank of India (Core Investment Companies) Directions, 2025 on 28 November 2025, providing a consolidated framework governing registration, capital requirements, prudential norms, governance, risk management, overseas investment, and reporting by Core Investment Companies (CICs). The Directions retain the defining thresholds for classification as a CIC while strengthening governance, disclosure, and supervisory oversight. Earlier instructions applicable to CICs stand repealed. The Directions are effective immediately.

B&P View: The consolidation enhances regulatory certainty for group holding structures while reinforcing governance discipline over intra-group exposures.

15. **RBI ISSUES DIRECTIONS ON CLIMATE FINANCE AND GREEN DEPOSITS FOR NBFCs**

RBI has issued the Reserve Bank of India (Non-Banking Financial Companies – Climate Finance and Management of Climate Change Risks) Directions, 2025 on 28 November 2025, prescribing a framework for acceptance of green deposits and management of climate-related financial risks by deposit-taking NBFCs and HFCs. The Directions mandate board-approved policies, defined use of proceeds for green activities, third-party verification, impact assessment, and periodic disclosures to prevent greenwashing. The Directions are effective immediately.

B&P View: The framework formally integrates climate risk governance into NBFC operations while enabling regulated mobilization of green finance.

16. **RBI ISSUES DIRECTIONS ON MANAGING RISKS IN OUTSOURCING BY NBFCs**

RBI has notified the Reserve Bank of India (Non-Banking Financial Companies – Managing Risks in Outsourcing) Directions, 2025 on 28 November 2025, prescribing a detailed governance and risk management framework for outsourcing of financial and IT services by NBFCs, including SPDs, CICs, NBFC-AAs, and NBFC-P2P platforms. The Directions impose board-level accountability, due diligence obligations, data security requirements, and exit and business continuity planning. Existing IT outsourcing arrangements must be aligned by renewal or by April 10, 2026.

B&P View: The Directions treat outsourcing as a core operational risk, reflecting heightened regulatory focus on cyber resilience and third-party risk management.

17. **RBI ISSUES UPDATED KYC DIRECTIONS FOR NBFCs**

RBI has notified the Reserve Bank of India (Non-Banking Financial Companies – Know Your Customer) Directions, 2025 on 28 November 2025, consolidating AML/CFT obligations applicable to NBFCs. The Directions align KYC requirements with the Prevention of Money Laundering Act, 2002 and FATF standards, covering customer due diligence, beneficial ownership, digital KYC, record retention, and reporting to FIU-IND. The Directions apply to all NBFCs with customer interface and take effect upon publication.

B&P View: The consolidation enhances consistency in AML compliance while recognizing increasing digital onboarding and cross-border operations.

18. **RBI INTRODUCES TRADE RELIEF MEASURES FOR AFFECTED EXPORTERS**

RBI, vide the Reserve Bank of India (Trade Relief Measures) Directions, 2025 dated November 14, 2025, has introduced a time-bound relief framework for exporters impacted by global trade disruptions. The Directions apply with immediate effect to banks, co-operative banks, NBFCs (including HFCs), and All-India Financial Institutions.

Eligible exporters with standard export credit accounts as on August 31, 2025 may be granted a moratorium or deferment on term loan instalments and working capital interest due between September 1, 2025 and December 31, 2025, with interest accruing on a simple interest basis. Accrued interest may be converted into a funded interest term loan. REs may also extend export credit tenor up to 450 days and allow alternative liquidation of packing credit. Relief granted will not be treated as restructuring and will not trigger asset classification downgrade, subject to specified conditions.

B&P View: The Directions offer limited, targeted forbearance to viable exporters while maintaining asset quality safeguards through conditions on eligibility, provisioning, and disclosure.

19. **RBI ISSUES MASTER DIRECTIONS ON REPURCHASE (REPO) TRANSACTIONS, 2025**

RBI, vide notification dated November 11, 2025, has issued the Master Direction – Reserve Bank of India (Repurchase Transactions (Repo)) Directions, 2025, superseding the earlier 2018 Directions and related circulars. The Directions are applicable with immediate effect to all participants in the repo market and govern repo transactions undertaken on recognised stock exchanges, authorised electronic trading platforms, and OTC markets, excluding LAF and MSF repos.

A key change under the new framework is the inclusion of Municipal Debt Securities as eligible collateral for repo and reverse repo transactions, pursuant to a Central Government notification dated October 22, 2025. The Directions also consolidate provisions relating to eligible securities, participants, tenor, trading venues, settlement, haircuts, reporting, and documentation under a single, updated framework.

B&P View: By expanding the collateral universe to include municipal debt securities and consolidating the repo framework, RBI aims to deepen market liquidity, support municipal bond markets, and enhance clarity and uniformity in repo market regulation.

20. RBI BRINGS STATE AND CENTRAL CO-OPERATIVE BANKS WITHIN THE INTEGRATED OMBUDSMAN SCHEME

RBI, vide notification dated October 07, 2025, has expanded the scope of the Reserve Bank – Integrated Ombudsman Scheme, 2021 (RB-IOS, 2021) by treating State Co-operative Banks and Central Co-operative Banks as "Regulated Entities" for the purposes of the Scheme. This change has been effected in partial modification of the earlier notification dated August 05, 2022.

Consequently, complaints relating to deficiencies in services provided by State and Central Co-operative Banks will now be covered under the RB-IOS framework, except to the extent specifically excluded under the Scheme. The notification comes into force with effect from November 01, 2025.

B&P View: The inclusion significantly widens consumer grievance redressal coverage in the co-operative banking sector and aligns these institutions with uniform customer protection standards applicable across the regulated banking ecosystem.

21. RBI EXPANDS INVESTMENT AVENUES FOR SURPLUS BALANCES IN SPECIAL RUPEE VOSTRO ACCOUNTS

RBI, vide A.P. (DIR Series) Circular No. 14 dated October 03, 2025, has expanded the permissible uses of surplus balances maintained in Special Rupee Vostro Accounts (SRVAs) under the International Trade Settlement in Indian Rupees framework.

Earlier, such balances could be invested only in Government Treasury Bills and Government securities. RBI has now permitted Authorised Dealer Category-I banks to allow investment of surplus SRVA balances in non-convertible debentures, bonds, and commercial papers issued by Indian companies, subject to applicable FEMA regulations and prescribed limits. The instruction is effective immediately.

B&P View: This measure deepens the INR trade settlement framework by improving yield options for SRVA holders and channeling offshore rupee liquidity into India's corporate debt market, while retaining regulatory safeguards under FEMA.

22. **RBI SIMPLIFIES EDPMS AND IDPMS RECONCILIATION FOR SMALL-VALUE EXPORTS AND IMPORTS**

RBI, vide A.P. (DIR Series) Circular No. 12 dated October 01, 2025, has reviewed and simplified the reconciliation and closure process under the Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS) for export and import entries valued at ₹10 lakh or less per bill.

AD Category-I banks may now close such entries based on a declaration from exporters or importers confirming realization or payment, including acceptance of value reductions. Declarations may also be submitted on a consolidated quarterly basis for bulk reconciliation. Banks have been directed to review and rationalise charges for handling such transactions and are expressly prohibited from levying penal charges for regulatory delays. The instructions are effective immediately and the relevant Master Directions will be updated accordingly.

B&P View: The relaxation materially reduces procedural friction for small exporters and importers and eases the compliance burden on banks, reflecting RBI's intent to promote trade facilitation without diluting regulatory oversight.

23. **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.

24. 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.

25. 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.

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. 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.

28. 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.

29. 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).

30. 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.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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.

36. 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.

37. 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.

38. 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.

39. 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.

40. 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.

41. 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.

42. 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.

43. 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.

44. **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.

45. **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.

46. **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.

47. **RBI ISSUES CONSOLIDATED MASTER DIRECTIONS ON PRIORITY SECTOR LENDING, 2025**

Reserve Bank of India, vide notification dated March 24, 2025, has issued the **Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025**, consolidating all extant instructions governing priority sector lending (PSL). The Master Directions supersede multiple legacy circulars and provide a unified framework covering PSL targets, sub-targets, eligible sectors, classification norms, and compliance requirements applicable to banks and specified financial institutions.

The Directions rationalise definitions across agriculture, MSMEs, exports, housing, education, renewable energy and weaker sections, while retaining differential targets for various categories of banks. The consolidation aims to improve regulatory clarity, consistency in reporting, and alignment of credit delivery with evolving policy priorities.

B&P View: The PSL Master Directions represent a foundational consolidation of India's credit allocation regime. By replacing fragmented instructions with a single, comprehensive framework, RBI has enhanced regulatory certainty and reduced interpretational divergence. Given PSL's direct impact on balance-sheet composition and lending strategy, these Directions are a cornerstone reform of 2025 and appropriately form part of the annual regulatory narrative.

48. **RBI REVIEWS PRIORITY SECTOR LENDING TARGETS FOR URBAN CO-**

OPERATIVE BANKS

RBI, vide circular dated March 24, 2025, has undertaken a **review of Priority Sector Lending targets applicable to Urban Co-operative Banks (UCBs)**. The revised framework recalibrates PSL obligations for UCBs by rationalising targets and sub-targets, taking into account their size, operational capacity, and risk profile.

The review seeks to strike a balance between financial inclusion objectives and the sustainability of UCBs, while continuing to ensure adequate flow of credit to priority sectors such as agriculture, MSMEs, and weaker sections.

B&P View: The recalibration of PSL targets for UCBs reflects a more proportionate regulatory approach. By aligning inclusion mandates with institutional capacity, RBI reduces compliance strain on UCBs while preserving their developmental role. This review signals a shift from uniform mandates to calibrated obligations and is therefore relevant for inclusion in a yearly assessment of regulatory direction.

49. RBI UPDATES FRAMEWORK FOR PRIORITY SECTOR LENDING CERTIFICATES

RBI, vide circular dated March 24, 2025, has issued updated instructions governing Priority Sector Lending Certificates (PSLCs). The framework continues to permit banks to buy and sell PSLCs as a mechanism to meet PSL targets without transferring the underlying loan assets, subject to prescribed conditions. The updated instructions align the PSLC framework with the revised PSL Master Directions and clarify eligibility, reporting, and operational aspects of PSLC transactions.
The objective is to facilitate efficient redistribution of priority sector credit obligations across the banking system through a market-based mechanism.

B&P View: PSLCs remain a critical tool for introducing flexibility and efficiency into the PSL regime. By aligning the PSLC framework with the consolidated PSL Directions, RBI reinforces a market-oriented approach to compliance while preserving the integrity of priority sector objectives. The update complements broader credit allocation reforms undertaken during 2025 and merits inclusion in the annual round-up.

50. RBI ISSUES DIRECTIONS ON FORWARD CONTRACTS IN GOVERNMENT SECURITIES, 2025

Reserve Bank of India, vide notification dated February 21, 2025, has issued the Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025, providing a comprehensive regulatory framework governing forward contracts in Government securities. The Directions prescribe eligibility of participants, permissible instruments, settlement mechanisms, risk management requirements, accounting treatment, and reporting obligations applicable to regulated entities and market participants. The framework seeks to enable market participants to hedge interest rate risk more effectively, improve price discovery in the government securities market, and deepen the domestic debt market, while ensuring prudential safeguards and market integrity.

B&P View: The introduction of a dedicated framework for forward contracts in Government securities is a significant market-development reform. By formalising forward transactions, RBI expands the toolkit available for interest rate risk management and complements broader reforms in repos and derivatives markets. This measure strengthens market depth and resilience and appropriately forms part of the annual regulatory narrative.

51. RBI ISSUES MASTER DIRECTION ON ACCESS CRITERIA FOR NDS-OM, 2025

RBI, vide notification dated February 07, 2025, has issued the Master Direction – Reserve Bank of India (Access Criteria for NDS-OM) Directions, 2025, consolidating and rationalising the framework governing access to the Negotiated Dealing System – Order Matching (NDS-OM) platform. The Master Direction sets out eligibility criteria, onboarding requirements, and participation norms for various categories of entities, including banks, primary dealers, and other eligible market participants.

The objective of the Directions is to enhance transparency, standardisation, and orderly participation in the Government securities trading ecosystem, while strengthening oversight and operational discipline.

B&P View: By consolidating access norms under a single Master Direction, RBI has reinforced the institutional architecture of India's government securities market. Clear and standardised access criteria promote broader participation without compromising market integrity. This reform is foundational to G-Sec market deepening and aligns with RBI's broader agenda of strengthening market infrastructure and supervisory clarity, making it a suitable inclusion in the yearly round-up.

52. RBI ISSUES FRAMEWORK FOR IMPOSING MONETARY PENALTY AND COMPOUNDING OF OFFENCES UNDER THE PSS ACT, 2007

Reserve Bank of India, vide notification dated January 30, 2025, has issued a Framework for Imposing Monetary Penalty and Compounding of Offences under the Payment and Settlement Systems Act, 2007. The framework lays down principles, procedures, and factors to be considered for imposition of monetary penalties and compounding of contraventions by payment system operators and other regulated entities governed by the PSS Act.

The framework aims to ensure transparency, proportionality, and consistency in enforcement actions, replacing ad-hoc or fragmented approaches with a structured supervisory mechanism.

B&P View: This framework represents a significant evolution in RBI's enforcement philosophy in the payments ecosystem. By codifying penalty and compounding processes, RBI enhances regulatory certainty while reinforcing accountability among payment system participants. The move signals a mature shift from corrective supervision to calibrated enforcement and is appropriately included as a key payments-regulation milestone of 2025.

53. RBI ISSUES REGULATORY PRESCRIPTIONS TO PREVENT FINANCIAL FRAUDS USING VOICE CALLS AND SMS

RBI, vide circular dated January 17, 2025, has issued regulatory prescriptions and institutional safeguards to prevent financial frauds perpetrated using voice calls and SMS. The framework prescribes measures to be adopted by banks and regulated entities, including enhanced monitoring, customer awareness initiatives, real-time transaction alerts, cooling-off mechanisms, and coordination with telecom and law-enforcement authorities.

The directions are aimed at mitigating rising instances of social-engineering frauds, phishing, and impersonation-based financial scams affecting customers across digital and traditional banking channels.

B&P View: The framework addresses one of the most acute conduct and consumer-protection risks in the financial system. By mandating institution-level safeguards rather than relying solely on customer vigilance, RBI elevates fraud prevention to a core governance and operational priority. This system-wide intervention is a notable conduct-regulation development of 2025 and merits inclusion in the annual round-up.

54. RBI ISSUES MASTER DIRECTION ON NON-RESIDENT INVESTMENT IN DEBT INSTRUMENTS, 2025

RBI, vide notification dated January 07, 2025, has issued the Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025, consolidating the regulatory framework governing foreign investment in debt instruments. The Master Direction harmonises provisions relating to eligible instruments, investment limits, routes of investment, reporting requirements, and compliance obligations applicable to non-resident investors, authorised dealer banks, and issuers.

The Direction replaces multiple legacy instructions and provides a single reference point for regulation of non-resident participation in India's debt markets.

B&P View: The consolidation of the non-resident debt investment framework is a foundational external-sector reform. By streamlining and clarifying rules governing foreign participation, RBI enhances predictability and ease of compliance while supporting orderly development of India's debt markets. This Master Direction also provides the regulatory base for subsequent 2025 reforms on INR trade settlement and SRA investments, justifying its inclusion in the yearly review.

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