RBI Circular
July

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RBI Proposes to Allow NBFCs Access to Term Money Market

What: The **Reserve Bank of India (RBI)** has proposed allowing **Non-Banking Financial Companies (NBFCs)**, **Housing Finance Companies (HFCs)**, **All India Financial Institutions (AIFIs)**, and certain companies to participate in the **term money market**.

- The proposal aims to deepen the money market, improve liquidity, diversify funding sources, and strengthen monetary policy transmission.

Key Highlights

- **NBFCs to participate in term money market:** RBI's draft directions propose expanding the term money market beyond banks and standalone primary dealers by allowing eligible NBFCs, HFCs, AIFIs, and companies to participate. Companies will only be allowed to lend, while NBFCs and other eligible entities can borrow and lend subject to prudential exposure limits.
- **Improved liquidity and price discovery:** The proposal aims to deepen liquidity across different maturities, improve price discovery, and extend activity beyond the overnight segment by creating a broader pool of borrowers and lenders in the money market.
- **Additional funding avenue for NBFCs:** The reform is expected to diversify funding sources for NBFCs, which currently rely heavily on bank borrowings, commercial papers, capital market instruments, and securitisation, thereby reducing dependence on a limited set of funding channels.

Q.) The Reserve Bank of India (RBI) has proposed allowing which of the following entities to participate in the term money market?
[a] Only Scheduled Commercial Banks
[b] Only Primary Dealers
[c] NBFCs, HFCs, AIFIs, and certain companies
[d] Only Mutual Funds and Insurance Companies
[e] Only Foreign Institutional Investors (FIIs)

Solution – [c]
Explanation:
The Reserve Bank of India (RBI) has proposed allowing Non-Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs), All India Financial Institutions (AIFIs), and certain companies to participate in the term money market. The move aims to deepen the money market, improve liquidity and price discovery, and diversify funding sources, especially for NBFCs.

Foreign Exchange Management (Deposit) Regulations, 2016

What: The **Foreign Exchange Management (Deposit) Regulations, 2016** have been issued by the Reserve Bank of India under the powers conferred by the **Foreign Exchange Management Act (FEMA), 1999**.

- The Regulations specify **who can open different types of deposit accounts, the nature of permissible credits and debits, repatriation rules, nomination facilities and the operational conditions applicable to each account**.

Legal Framework

These Regulations have been issued by the Reserve Bank of India in exercise of the powers conferred under **FEMA, 1999**.

Section 6 of FEMA empowers the RBI to regulate **capital account transactions**, while Section 47 authorises the RBI to frame regulations for implementing the provisions of the Act.

Short Title and Commencement

The Regulations are called the **Foreign Exchange Management (Deposit) Regulations, 2016**. They came into force from **1 April 2016**, replacing the earlier framework governing deposits of persons resident outside India.

Definitions

An **Authorised Bank** refers to a bank authorised by the RBI to maintain the various deposit accounts prescribed under these Regulations.

Non-Resident Indian (NRI) refers to a person resident outside India who is either a citizen of India or an Overseas Citizen of India (OCI), wherever applicable under the relevant provisions.

New Addition (June 2026)

- The **Foreign Exchange Management (Deposit) (Sixth Amendment) Regulations, 2026** inserted a **new definition of "International Financial Services Centre (IFSC)"**.

- Banks operating through IFSC branches now have a clear regulatory basis for offering facilities that were earlier available only through branches in India, wherever the Regulations permit.

- **Acceptance of Deposits**

- It provides that **no person shall accept deposits from, or make deposits with, a person resident outside India except in accordance with the provisions of FEMA, the Rules and the Regulations framed under the Act.**
- The provision relating to the **Special Non-Resident Rupee (SNRR) Account** under Regulation 5 has been amended. A person resident outside India may now open, hold and maintain an SNRR Account **with an Authorised Dealer in India or with its branch outside India, including a branch located in an IFSC in India.**

Non-Resident External (NRE) Rupee Account

The NRE Account is one of the most commonly used banking accounts by Non-Resident Indians (NRIs) because it allows foreign earnings to be maintained in India with the benefit of **full repatriability**, meaning that both the principal amount and the interest earned can generally be transferred abroad without restriction, subject to FEMA compliance.

Eligibility to Open an NRE Account

An **NRE Rupee Account** may be opened by a **Non-Resident Indian (NRI)** or an **Overseas Citizen of India (OCI)** with an Authorised Dealer or an Authorised Bank in India.

The account may be opened in the form of a **savings account, current account, recurring deposit or fixed deposit**.

The account is maintained in **Indian Rupees**, even though the source of funds is generally foreign currency remitted from outside India.

Joint Holding of an NRE Account

The Regulations permit an NRE Account to be opened jointly with another **NRI or OCI**.

The account may also be held jointly with a **resident close relative** on a **'former or survivor' basis**.

Permissible Credits to an NRE Account

The account may be credited with **inward remittances received from outside India through normal banking channels**. It may also receive funds transferred from another **NRE Account**, **FCNR(B) Account**, or from other accounts wherever specifically permitted under FEMA.

In addition, interest earned on the balance maintained in the NRE Account may also be credited to the account.

Permissible Debits from an NRE Account

The balance in an NRE Account may be used for all **local payments in India** that are permissible under FEMA.

The account may also be debited for **remittances outside India**, transfers to other eligible accounts and investments that are permitted under the foreign exchange regulations.

Transfers between Accounts

The Regulations permit transfers from an NRE Account to another eligible **NRE Account** or **FCNR(B) Account**, subject to the applicable FEMA provisions.

Rate of Interest

The rate of interest payable on NRE deposits is determined by the Reserve Bank of India through directions issued from time to time.

Authorised Dealer banks are required to comply with the RBI's interest rate framework while accepting and maintaining NRE deposits.

Nomination Facility

The nomination facility simplifies the settlement of claims after the death of the account holder and reduces delays in releasing deposits.

Change in Residential Status

If an NRI or OCI holding an NRE Account becomes a **person resident in India**, the account can no longer continue as an NRE Account because the eligibility condition of being a non-resident ceases to exist.

In such cases, the account must be redesignated or converted in accordance with the RBI's applicable directions governing the change in residential status.

Foreign Currency Non-Resident [FCNR(B)] Account

Schedule 2 governs the **Foreign Currency Non-Resident [FCNR(B)] Account**, which is one of the most important deposit schemes available to Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs). Unlike the NRE Account, which is maintained in Indian Rupees, the FCNR(B) Account is maintained in **designated foreign currencies**. Consequently, the account holder is protected from exchange rate fluctuations between the Indian Rupee and the foreign currency in which the deposit is maintained.

Eligibility to Open an FCNR(B) Account

An **NRI or OCI** may open an FCNR(B) Account with an **Authorised Dealer in India**.

The account can only be maintained in the form of a **term deposit**.

The minimum maturity period and the maximum maturity period are prescribed by the Reserve Bank of India from time to time, and Authorised Dealer banks are required to comply with these directions while accepting FCNR(B) deposits.

Permitted Foreign Currencies

The FCNR(B) Account can be maintained only in **foreign currencies specified by the Reserve Bank of India** such as the **US Dollar (USD), Pound Sterling (GBP), Euro (EUR), Japanese Yen (JPY), Canadian Dollar (CAD)** and **Australian Dollar (AUD)**, along with any other currency permitted by the RBI from time to time.

Joint Holding of an FCNR(B) Account

An FCNR(B) Account may be held jointly with another **NRI or OCI**.

The Regulations also permit joint holding with a **resident close relative** on a **'former or survivor' basis**, subject to the conditions prescribed by the RBI.

Permissible Credits

The FCNR(B) Account may receive **inward remittances from outside India through normal banking channels**.

It may also be credited through **transfers from another FCNR(B) Account** or from an **NRE Account**, wherever such transfers are permitted under FEMA.

Interest earned on the FCNR(B) deposit may also be credited to the account.

Since the account represents foreign currency deposits of non-residents, only specified credits are permitted to ensure compliance with FEMA.

Permissible Debits

Funds lying in the FCNR(B) Account may be utilised for **all permissible local payments in India**.

The account may also be debited for **remittances outside India**, transfers to another FCNR(B) or NRE Account, and investments permitted under FEMA.

Interest on FCNR(B) Deposits

The interest payable on FCNR(B) deposits is regulated by the Reserve Bank of India through directions issued from time to time.

Premature Withdrawal

The Regulations permit premature withdrawal of FCNR(B) deposits, subject to the terms and conditions prescribed by the Reserve Bank of India and the individual bank.

Loans against FCNR(B) Deposits

The Regulations permit banks to grant loans against FCNR(B) deposits in accordance with the RBI's directions.

Such loans are subject to the conditions prescribed under FEMA and the relevant banking regulations to ensure that the loan proceeds are used only for permissible purposes.

Nomination Facility

Nomination is permitted for FCNR(B) Accounts.

The account holder may nominate a person who can receive the deposit proceeds upon the death of the depositor.

Change in Residential Status

If the account holder becomes a **person resident in India**, the FCNR(B) Account cannot continue indefinitely under the non-resident category.

Upon the change in residential status, the account must be dealt with in accordance with the RBI's directions applicable to returning NRIs

Non-Resident Ordinary (NRO) Account

The **Non-Resident Ordinary (NRO) Account** is designed primarily to enable **persons resident outside India** to manage **income earned in India**. Unlike the NRE Account, which is meant for foreign earnings remitted to India, the NRO Account mainly deals with domestic receipts such as rent, pension, dividends, interest, salary, sale proceeds of assets and other legitimate income arising in India.

The account is maintained in **Indian Rupees** and serves as the principal banking account for managing Indian-source income after a person becomes a non-resident.

Eligibility to Open an NRO Account

Any **person resident outside India** may open an NRO Account with an **Authorised Dealer or Authorised Bank** in India.

Joint Holding

An NRO Account may be held jointly with another eligible account holder in accordance with RBI directions.

Permissible Credits

The Regulations permit various categories of legitimate credits into an NRO Account.

The account may receive **inward remittances from outside India** through normal banking channels.

It may also receive **legitimate dues payable in India**, including rent, dividend, pension, interest, salary, sale proceeds of assets wherever permitted, gifts received in accordance with FEMA and other bona fide receipts arising in India.

Permissible Debits

Funds lying in an NRO Account may be used for all **legitimate local payments** in India.

The account may also be debited for **remittances outside India**, payment of taxes, investments permitted under FEMA, transfers to eligible accounts and all other transactions specifically permitted by the Reserve Bank.

However, unlike the NRE Account, outward remittances from an NRO Account are **not completely unrestricted**.

Transfer of Funds

Transfers between NRO Accounts are permitted in accordance with RBI directions.

New Addition (June 2026)

One of the most significant amendments provide that funds may be transferred from an NRO Account to an NRE Account or to a Special Non-Resident Rupee (SNRR) Account.

Rate of Interest

Interest payable on NRO deposits is determined by the Authorised Dealer bank in accordance with the Reserve Bank's directions issued from time to time.

Nomination

Nomination is permitted in respect of NRO Accounts.

Change in Residential Status

When a resident Indian becomes a **person resident outside India**, the existing resident account is required to be redesignated in accordance with FEMA and RBI directions.

Similarly, if a person holding an NRO Account again becomes a **person resident in India**, the account must be redesignated as prescribed under the applicable RBI framework.

Taxation

Unlike the NRE Account, the interest earned on an NRO Account is generally **taxable in India** in accordance with the provisions of the Income-tax Act, 1961.

Applicable taxes are deducted in accordance with the prevailing tax laws.

Special Non-Resident Rupee (SNRR) Account

The **Special Non-Resident Rupee (SNRR) Account** is a specialised rupee-denominated account designed for **persons resident outside India** who undertake **permissible current account and capital account transactions** with persons resident in India under FEMA.

Who Can Open an SNRR Account?

Amendment (June 2026)

The amended Regulations now provide that a person resident outside India may open, hold and maintain an SNRR Account with:

- an **Authorised Dealer in India**, or
- **its branch outside India**, including
- **a branch located in an International Financial Services Centre (IFSC) in India**.
- Earlier, the Regulations referred only to an Authorised Dealer in India.

Transfer from NRO Account

New Addition (June 2026)

The amendment expressly provides that **transfers from an NRO Account to an SNRR Account** shall be carried out.

Deleted Provisions (June 2026)

Earlier, these paragraphs contained several operational conditions governing the SNRR framework.

The RBI has now removed these provisions as part of a broader effort to simplify the regulatory framework.

Transactions Between Non-Residents

New Addition (June 2026)

A completely new **Paragraph 16** has been inserted in Schedule 4.

The new provision states that **transactions between persons resident outside India involving SNRR Accounts**, which may not otherwise require compliance under FEMA or the Rules and Regulations framed thereunder, may be effected by the Authorised Dealer bank on the basis of instructions or a mandate from the account holder indicating the underlying purpose of the transfer.

Overall Importance of the June 2026 Amendments

The June 2026 amendments collectively transform the SNRR framework from a relatively narrow transaction account into a much more flexible instrument supporting India's evolving international financial ecosystem.

The amendments:

- recognise **IFSC branches**;
- permit maintenance through **overseas branches of Authorised Dealers**;
- expand the scope of permissible transactions;
- simplify the regulatory framework by deleting redundant provisions;
- expressly recognise transfers from NRO Accounts; and
- introduce a new framework governing transactions between non-residents.

Taken together, these changes strengthen India's objective of promoting **GIFT IFSC** as an international financial centre while making FEMA regulations easier to implement.

Escrow Account

An **Escrow Account** is a special-purpose bank account where money is temporarily held by a neutral party until certain contractual obligations or conditions are fulfilled.

Unlike a regular bank account, an escrow account does not belong to one party for unrestricted use. Instead, the funds remain "parked" in the account until the agreed transaction is completed.

Under FEMA, the Escrow Account framework facilitates various transactions involving non-residents while ensuring that funds are used only for the specific purpose for which the account has been opened.

The RBI permits Escrow Accounts to support genuine cross-border transactions such as investments, acquisitions, share purchases, open offers, disinvestment and other transactions specifically permitted under FEMA.

Who Can Open an Escrow Account?

The Regulations permit the opening of an Escrow Account with an **Authorised Dealer in India** for transactions that are permissible under FEMA and the relevant RBI regulations.

The account may be opened by eligible persons, including residents and non-residents, depending upon the nature of the underlying transaction and the applicable FEMA provisions.

Permissible Credits

- Only those funds that relate directly to the underlying transaction may be credited to the Escrow Account.
- The amount deposited should correspond to the consideration payable or receivable under the approved transaction.
- Banks are required to ensure that all credits are supported by proper documentation and are consistent with FEMA, the relevant RBI directions and the terms of the escrow agreement.

Permissible Debits

Funds can be withdrawn or released from the Escrow Account only for the purpose for which the account was opened.

Once the contractual obligations are fulfilled and all applicable legal or regulatory conditions have been satisfied, the Authorised Dealer may release the funds to the eligible beneficiary.

Responsibilities of the Authorised Dealer

The Authorised Dealer has an important supervisory role in the operation of Escrow Accounts.

Before opening the account, the bank must satisfy itself that:

- the underlying transaction is permissible under FEMA;
- the necessary approvals, wherever required, have been obtained;
- the escrow agreement is valid; and
- the operation of the account complies with RBI directions.

Even after opening the account, the bank must continue to monitor the transactions to ensure ongoing compliance with FEMA.

Closure of the Escrow Account

An Escrow Account is not intended to remain operational indefinitely.

Once the underlying transaction has been completed or if it is terminated the account should be closed after all obligations have been discharged and the remaining balance, if any, has been dealt with in accordance with FEMA and the escrow agreement.

Remaining Schedules and Miscellaneous Provisions

After prescribing the detailed framework for NRE, FCNR(B), NRO, SNRR and Escrow Accounts, the Regulations also contain provisions relating to **other specialised deposit accounts and operational matters**.

These provisions ensure that Authorised Dealer (AD) banks have a clear regulatory framework for handling special categories of transactions involving persons resident outside India.

Deposit Accounts in Special Situations

Unlike the NRE or NRO Account schemes, these accounts are **not general-purpose banking accounts**. They are permitted only for specified categories of transactions or classes of persons as recognised under FEMA or other RBI directions.

The objective is to ensure that where a special regulatory requirement exists, banks have a legal mechanism to maintain the necessary deposit account without deviating from FEMA.

Why has RBI included this Schedule?

The RBI recognises that not all transactions involving non-residents fit within the standard NRE, NRO, FCNR(B) or SNRR framework. Certain transactions require a separate operational mechanism because of their specialised nature. Schedule 6 provides the flexibility to accommodate such situations while ensuring that every account remains subject to FEMA.

Miscellaneous Deposit Provisions

These provisions ensure consistency in the administration of non-resident deposit accounts and enable banks to deal with situations that may not be fully covered in the earlier schedules.

Role of Authorised Dealer Banks

- Accordingly, before opening any account, processing any transaction or permitting any remittance, the bank must satisfy itself that the transaction is permissible under FEMA and the relevant RBI regulations.
- This responsibility does not end once the account is opened. The Authorised Dealer must continue to monitor the operation of the account and ensure that all credits, debits, transfers and remittances remain compliant with the applicable regulatory framework.

Consolidated Table – June 2026 Amendments

Provision	Nature of Change	Amendment	Why It Matters
Regulation 2	New Definition	Definition of **International Financial Services Centre (IFSC)** inserted.	Aligns the Deposit Regulations with the IFSCA Act, 2019 and recognises the growing role of IFSCs such as GIFT City.
Regulation 5	Amendment	SNRR Accounts can now be maintained with an AD in India, its branches outside India and branches in an IFSC.	Expands banking access for non-residents and strengthens IFSCs.
Schedule 1 (NRE)	No direct amendment	Operational provisions remain unchanged.	Continue to apply as before.
Schedule 2 (FCNR(B))	No direct amendment	Operational provisions remain unchanged.	Continue to apply as before.
Schedule 3 (NRO)	New Addition	Express provision permitting transfers from NRO Accounts to NRE and SNRR Accounts, subject to FEMA (Remittance of Assets) limits.	Improves regulatory clarity and facilitates eligible fund transfers.
Schedule 4 (SNRR)	Amendment	Scope expanded to include bona fide transactions with	Broadens the use of SNRR Accounts in

		persons resident outside India.	cross-border transactions.
Schedule 4	Amendment	SNRR Accounts may be maintained through overseas branches and IFSC branches of AD banks.	Enhances operational flexibility and supports international banking.
Schedule 4	Deleted Provisions	Paragraphs 2, 5, 6, 7 and 8 deleted.	Simplifies the regulatory framework by removing redundant provisions.
Schedule 4	New Addition	Paragraph 16 inserted to govern transactions between persons resident outside India through SNRR Accounts.	Provides clarity regarding documentation and the role of AD banks in such transactions.
Schedule 5	No direct amendment	Escrow Account provisions unchanged.	Existing framework continues.
Schedules 6 & 7	No direct amendment	No substantive changes.	Existing provisions continue to apply.

The Schedule reinforces the principle that every deposit account maintained for a person resident outside India must comply with FEMA, the Rules, these Regulations and any directions issued by the Reserve Bank from time to time.

RBI Introduces RB-IOS 2026

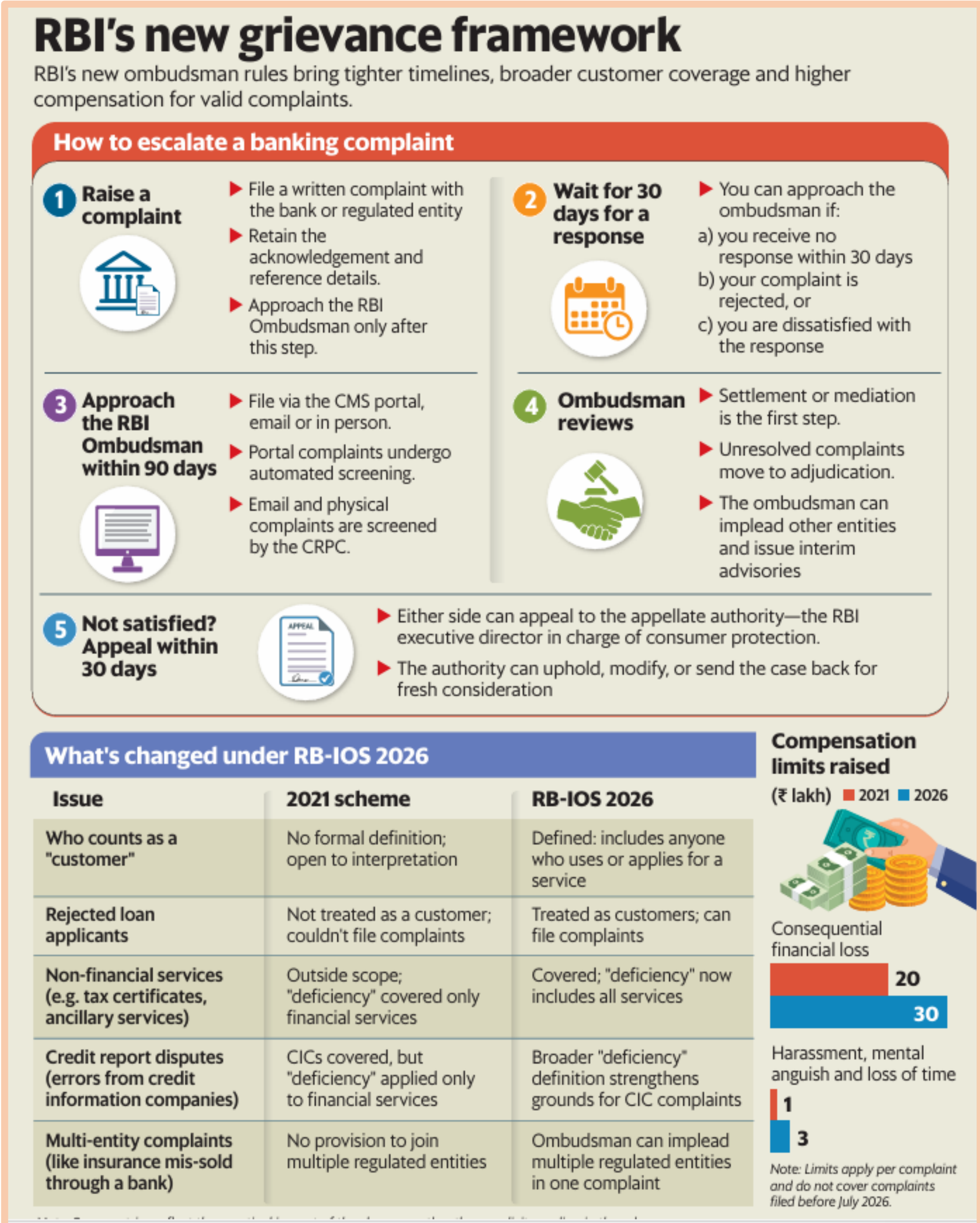
What: The Reserve Bank of India (RBI) has launched the Reserve Bank–Integrated Ombudsman Scheme (RB-IOS) 2026, effective from July 2026, to strengthen consumer grievance redressal.

- The revised framework broadens the scope of complaints, increases compensation limits, introduces a technology-driven settlement process, and enhances the powers of the Ombudsman.

Key Highlights

- **Broader definition of customer:** For the first time, "customer" includes anyone who uses or applies for services from regulated entities such as banks, NBFCs, and payment system participants.

- **Expanded scope of service deficiency:** The term "deficiency in service" now covers all services provided by regulated entities, not just financial services.
- **Complaints by loan applicants allowed:** Even rejected loan applicants can now file complaints under the scheme.
- **Ombudsman gets wider powers:** The Ombudsman can include multiple regulated entities in a complaint where responsibility is shared, such as in cases of insurance mis-selling through banks.
- **Interim advisories introduced:** Ombudsmen can issue non-binding interim advisories to facilitate quicker resolution of disputes.
- **Higher compensation limits:**
    - Compensation for consequential financial loss increased from **₹20 lakh to ₹30 lakh**.
    - Compensation for harassment, mental agony, and loss of time increased from **₹1 lakh to ₹3 lakh**.
- **Shorter complaint escalation period:** Customers now have **90 days** (reduced from one year) to approach the Ombudsman after receiving a response or after the expiry of the regulated entity's response period.
- **Technology-driven complaint screening:** Online complaints will undergo automated eligibility checks to filter out invalid complaints at the initial stage.
- **Settlement-first approach:** The scheme prioritizes negotiation and mediation between customers and regulated entities before moving to formal adjudication.
- **Data privacy safeguards:** The framework incorporates consent-based personal data usage in line with the **Digital Personal Data Protection (DPDP) Act, 2023**.
- **Significance**
    - Enhances customer protection in an increasingly digital financial ecosystem.
    - Improves accountability of banks, NBFCs, payment service providers, and other regulated entities.
    - Promotes faster, technology-enabled dispute resolution.
    - Strengthens trust in India's financial grievance redressal mechanism.



RBI's new grievance framework

RBI's new ombudsman rules bring tighter timelines, broader customer coverage and higher compensation for valid complaints.

How to escalate a banking complaint

1 Raise a complaint
- File a written complaint with the bank or regulated entity
- Retain the acknowledgement and reference details.
- Approach the RBI Ombudsman only after this step.

2 Wait for 30 days for a response
- You can approach the ombudsman if:
  a) you receive no response within 30 days
  b) your complaint is rejected, or
  c) you are dissatisfied with the response

3 Approach the RBI Ombudsman within 90 days
- File via the CMS portal, email or in person.
- Portal complaints undergo automated screening.
- Email and physical complaints are screened by the CRPC.

4 Ombudsman reviews
- Settlement or mediation is the first step.
- Unresolved complaints move to adjudication.
- The ombudsman can implead other entities and issue interim advisories

5 Not satisfied? Appeal within 30 days
- Either side can appeal to the appellate authority—the RBI executive director in charge of consumer protection.
- The authority can uphold, modify, or send the case back for fresh consideration

What's changed under RB-IOS 2026

Issue	2021 scheme	RB-IOS 2026
Who counts as a "customer"	No formal definition; open to interpretation	Defined: includes anyone who uses or applies for a service
Rejected loan applicants	Not treated as a customer; couldn't file complaints	Treated as customers; can file complaints
Non-financial services (e.g. tax certificates, ancillary services)	Outside scope; "deficiency" covered only financial services	Covered; "deficiency" now includes all services
Credit report disputes (errors from credit information companies)	CICs covered, but "deficiency" applied only to financial services	Broader "deficiency" definition strengthens grounds for CIC complaints
Multi-entity complaints (like insurance mis-sold through a bank)	No provision to join multiple regulated entities	Ombudsman can implead multiple regulated entities in one complaint

Compensation limits raised

(₹ lakh) 2021 2026

Consequential financial loss: 20 | 30

Harassment, mental anguish and loss of time: 1 | 3

Note: Limits apply per complaint and do not cover complaints filed before July 2026.

Q.) Under the Reserve Bank–Integrated Ombudsman Scheme (RB-IOS) 2026, what is the enhanced compensation limit for consequential financial loss?
[a] ₹30 lakh
[b] ₹25 lakh
[c] ₹35 lakh
[d] ₹40 lakh
[e] ₹50 lakh

Solution – [a]

Explanation:
Under the Reserve Bank–Integrated Ombudsman Scheme (RB-IOS) 2026, the compensation limit for consequential financial loss has been increased from ₹20 lakh to ₹30 lakh. The revised framework also expands the scope of complaints, enhances Ombudsman powers, introduces technology-driven complaint screening, and promotes faster dispute resolution.

Digital Fraud Norms

Foreign Exchange Management (Deposit) Regulations, 2016

(Consolidated from RBI notifications issued for Commercial Banks, Small Finance Banks, Payments Banks, Regional Rural Banks, Local Area Banks, Urban Co-operative Banks and Rural Co-operative Banks.)

Digital banking has made banking faster and more convenient. However, the number of online frauds such as phishing, fake links, OTP frauds, remote access app scams, card frauds and UPI frauds has also increased significantly.

RBI has **replaced the earlier framework with a much broader framework called "Customer Protection in Fraudulent Electronic Banking Transactions."**

The new framework shifts the focus from merely deciding liability to providing **complete customer protection**, including prevention, timely reporting, quick grievance redressal, transaction reversal and compensation.

Applicability

The revised framework applies to almost every category of scheduled banking institution in India.

It covers:

- Commercial Banks
- Small Finance Banks (SFBs)
- Payments Banks (PBs)
- Regional Rural Banks (RRBs)
- Local Area Banks (LABs)
- Urban Co-operative Banks (UCBs)
- Rural Co-operative Banks (State and District Central Co-operative Banks)

Effective Date

The revised framework shall apply to **all electronic banking transactions undertaken on or after 1 January 2027.**

Any fraudulent electronic banking transaction occurring before this date will continue to be governed by the earlier instructions.

Major Shift in RBI's Approach

Earlier Framework:

- Focused mainly on customer liability.
- Primarily answered the question:
  "Who will bear the loss?"

New Framework:

The revised framework answers several additional questions:

- How should banks prevent fraud?
- What systems should banks maintain?
- How should customers report fraud?
- What should banks do immediately after receiving a complaint?
- When should money be reversed?
- When should customers receive compensation?
- What timelines should banks follow?
- What role should cybercrime reporting play?

Thus, customer protection has become much broader than merely deciding liability.

Important Definitions

1. Electronic Banking Transaction (EBT)

An **Electronic Banking Transaction (EBT)** refers to any transfer of money carried out electronically.

It includes transactions through:

- Internet Banking
- Mobile Banking
- UPI
- Debit Cards
- Credit Cards (where applicable)
- NEFT
- RTGS
- IMPS
- Other electronic fund transfer systems

Whenever money moves electronically from one account to another, it is treated as an Electronic Banking Transaction (EBT).

2. Card Present Transaction

A **Card Present Transaction** is a transaction where the physical card is actually present at the merchant location.

Examples:

- Swiping a debit card at a shopping mall.
- Tapping a contactless card on a POS machine.
- Inserting the card into a POS terminal.

Since the physical card is present, these transactions are called **Card Present (CP) Transactions**.

3. Card Not Present Transaction

A **Card Not Present (CNP) Transaction** is one where the physical card is not used at the merchant location.

Examples:

- Online shopping
- Subscription payments
- Booking airline tickets online
- Hotel bookings
- Food delivery payments

Only the card details such as:

- Card Number
- CVV
- Expiry Date
- OTP

are used instead of the physical card.

Because the physical card is absent, such transactions are known as **Card Not Present Transactions**.

4. Fraudulent Electronic Banking Transaction (Fraudulent EBT)

This is one of the most important definitions introduced by RBI.

A Fraudulent EBT includes transactions where:

Situation 1

A fraudster obtains the customer's banking credentials through fraudulent means.

Examples:

- Phishing websites
- Fake customer care numbers
- OTP scams
- Fake KYC updates
- QR code scams
- Fake investment apps

The fraudster then carries out the transaction.

Situation 2

The customer himself authorises the transaction, but only because he was:

- threatened,
- forced,
- blackmailed,
- coerced, or
- deceived.

For example,

A fraudster threatens the customer over a video call and forces him to approve a UPI payment.

Although the customer technically clicked "Approve", the approval was not voluntary.

Such transactions are also treated as fraudulent.

Situation 3

The transaction itself is completely unauthorised.

For example,

Someone hacks into the customer's account and transfers money without any approval from the customer.

This is also covered under Fraudulent EBT.

5. Unauthorised Electronic Banking Transaction

An unauthorised transaction means: **A transaction that the customer never authorised.**

Such transactions may arise because of:

- Bank negligence.
- Third-party system failures.

- Internal fraud.
- Security breaches.
- Hacking.

For example,

If hackers exploit a bank's weak security system and transfer money from a customer's account without permission, it is an unauthorised EBT.

6. Third-party Breach

A third-party breach occurs when neither the customer nor the bank is responsible for the fraud.

Instead, the problem arises somewhere else in the payment ecosystem.

Examples include failures or security lapses by:

- Third-Party Application Providers (TPAPs)
- Payment Aggregators (PAs)
- Payment Gateways (PGs)
- Telecom Service Providers (TSPs)
- Other intermediaries involved in digital payments

For instance, if a vulnerability in a payment gateway allows fraudsters to steal payment details, the deficiency lies with the intermediary rather than with the customer or the bank.

7. Negligence by Customer

RBI has clearly explained what amounts to customer negligence.

A customer may be considered negligent if he or she:

- Shares PIN, password or OTP with another person.
- Writes the PIN on the debit or credit card.
- Does not report fraud promptly after becoming aware of it.
- Ignores a clear fraud warning issued by the bank before completing a transaction.
- Downloads malicious or fake applications that compromise account security.
- Fails to update the registered mobile number or email address after changing them.

These examples help banks assess whether the customer contributed to the fraud through avoidable actions.

8. Negligence by Bank

A bank may be considered negligent if it:

- Does not maintain adequate security systems for electronic banking.
- Fails to send mandatory transaction alerts.
- Does not provide 24×7 channels for reporting fraud or loss of cards.
- Does not act promptly after receiving a customer's complaint.
- Suffers system failures, security breaches or internal fraud that lead to unauthorised transactions.

If the bank's negligence causes the fraud, the customer generally receives stronger protection under the new framework.

9. Shadow Reversal

It means that the bank gives a **temporary or provisional credit** for the disputed amount after the customer reports a fraudulent transaction, even before the investigation is completed.

However:

- The customer cannot freely use this provisional amount until the investigation is over.
- The customer should not suffer any additional interest or charges during this period.

This mechanism is mainly relevant for **credit card fraud complaints** and has been introduced for Commercial Banks and Small Finance Banks that issue credit cards. Payments Banks do not issue credit cards, so this specific provision is generally not applicable to them.

Customer Protection in Fraudulent Electronic Banking Transactions

One of the biggest changes introduced by RBI is that **banks can no longer remain passive after providing digital banking services.**

Earlier, banks mainly focused on investigating frauds after they occurred. The revised framework shifts the focus towards **prevention, early detection, customer awareness and prompt response**.

Steps need to be followed by the Banks

1. **Every Bank Must Have a Customer Protection Policy -** RBI has made it mandatory for every bank to formulate a **Customer Protection Policy** for Electronic Banking Transactions (EBTs).
2. **What Should the Policy Cover?**
   (a) Channels for Alerts and Fraud Reporting
   (b) Rights and Responsibilities

(c) Complaint Resolution Timeline
(d) Customer Awareness Programme

3. Banks Must Design Safe Digital Banking Systems - This is a significant policy shift. Earlier, customers were expected to protect themselves. Now, RBI expects banks to proactively reduce fraud risks.

4. **Robust Security Systems -** Banks must establish appropriate systems and procedures to ensure the safety of electronic banking transactions.

5. **Dynamic Fraud Detection Mechanism -** Banks must establish **robust and dynamic fraud detection systems.** The objective is to detect fraud **before** significant financial loss occurs.

6. **Continuous Risk Assessment -** Banks must periodically assess risks arising from fraudulent EBTs. It must be an ongoing process.

7. **Risk Mitigation -** These may include stronger authentication, transaction monitoring, improved cyber security, enhanced encryption, fraud analytics, AI-based fraud detection & regular software updates.

8. **Continuous Customer Awareness -** RBI has specifically used the words **"continually and repeatedly"**.

9. **Mandatory Mobile Number & Email Collection** & **Verification of Customer Details as well as Instant SMS Alerts** -Banks must send **instant SMS alerts** for **every electronic banking transaction above ₹500.**This applies irrespective of the payment channel used. Examples include UPI, IMPS, NEFT, RTGS, Internet Banking, Mobile Banking, Debit Card, Credit Card (where applicable).

10. **Mandatory Email Alerts -** Wherever customers have registered an email address, banks must send email alerts for **every Electronic Banking Transaction.**

11. **Customer Reporting of Fraud -** banks must continuously advise customers to report fraud immediately.

12. **Reporting to National Cyber Crime Portal -** Customers should report fraudulent transactions to their Bank, National Cyber Crime Reporting Portal & National Cyber Crime Helpline **1930.**

- The **1930 Helpline** is designed to quickly coordinate with banks and payment intermediaries to freeze or trace fraudulently transferred funds before they are withdrawn or transferred further.

What's New Compared to the Earlier Framework?

Earlier Framework	New Framework (2026)
Focused mainly on customer liability.	Focuses on prevention, detection, reporting, reversal and compensation.
Limited emphasis on customer awareness.	Continuous customer awareness made mandatory.

Basic reporting channels.	Mandatory 24×7 reporting channels.
No integration with cybercrime ecosystem.	Reporting through National Cyber Crime Portal and Helpline 1930 encouraged.
Alerts were governed by earlier instructions.	Instant SMS and email alert requirements clearly incorporated into the framework.
Limited guidance on complaint acknowledgement.	Immediate complaint registration and acknowledgement made mandatory.
Limited emphasis on proactive fraud prevention.	Banks must continuously improve fraud detection and cyber security systems.

Customer Protection in Fraudulent Electronic Banking Transactions

1. **Classification of Fraud Complaints -** Every complaint involving a fraudulent EBT must be examined and classified into one of the following categories:
    - Fraud caused by **bank negligence**.
    - Fraud caused by a **third-party breach**.
    - Fraud caused due to **customer negligence**.
    - Other eligible categories specified under the bank's policy.

The category determines the customer's liability, the bank's liability, eligibility for compensation and the action to be taken.

- **Zero Liability Due to Bank Negligence**
- **Zero Liability in Third-Party Breach**
    1. If the customer reports the fraudulent transaction to the bank **within five calendar days from the date of occurrence**, the customer will receive **Zero Liability**, and **Full reversal of the transaction.**
    2. **If** the customer reports the third-party breach **after five calendar days**, RBI has not prescribed automatic zero liability.
- **Liability Due to Customer Negligence -** If the fraud occurred because of the customer's negligence, RBI follows a different approach.
    3. Examples of customer negligence include Sharing OTP or PIN, Sharing passwords, Providing banking credentials to another person, Downloading malicious applications, Ignoring explicit scam warnings issued by the bank, Failing to update the registered mobile number or email,Delaying the reporting of fraud after becoming aware of it.

4. **Extent of Customer Liability -** If customer negligence contributed to the fraud the customer bears the loss **only until the fraud is reported to the bank.** The customer's liability is **not unlimited.**

Complaint Resolution Timeline

Earlier, fraud complaints often remained unresolved for several months. The revised framework introduces clear maximum timelines.

- **Domestic Fraudulent Transactions -** The bank must complete investigation, liability determination, communication of its decision within **45 calendar days** from the date of receiving the complaint.
- **Cross-Border Fraudulent Transactions -** Where the fraud involves an international transaction, the maximum time allowed is **60 calendar days**.

Value-Dated Reversal - The reversal should be **Value Dated** to the original transaction date. This means the customer should be placed in the same financial position as if the fraud had never occurred.Consequently, the customer should not suffer loss of savings interest, additional loan interest, credit card interest, penalties, overdue charges, late payment fees, or any similar financial burden.

Shadow Reversal (Credit Card Cases)

Where a complaint relates to fraudulent credit card transactions, the bank should provide a **Shadow Reversal** within **five calendar days** of receiving the complaint.

Shadow Reversal means a temporary or provisional credit, before the investigation is completed.

Rejection of Complaints - If the bank concludes that the customer is liable, it cannot simply reject the complaint. The bank must provide clear reasons, supporting evidence, basis for establishing customer negligence and the grounds on which the claim has been rejected. This promotes fairness and accountability.

Comparison of Different Liability Scenarios

Situation	Customer Liability	Bank's Responsibility
Bank negligence	Zero	Full reversal of transaction
Third-party breach reported within 5 days	Zero	Full reversal
Third-party breach reported after 5 days	As per bank's policy	As per policy

Customer negligence	Customer bears eligible loss until reporting	Loss after reporting borne by bank
Fraud after customer reports complaint	Zero	Entire loss borne by bank

What's New Compared to the Earlier Framework?

Earlier Framework	Revised Framework (2026)
Customer liability provisions existed but were less comprehensive.	A detailed liability framework with clear classification of frauds has been introduced.
Burden of proof was often disputed.	RBI explicitly places the burden of proving customer negligence on the bank.
Complaint resolution timelines were less structured.	Maximum timelines of **45 days (domestic)** and **60 days (cross-border)** have been prescribed.
Limited guidance on transaction reversal.	Value-dated reversal ensures customers do not suffer interest or charges.
No concept of Shadow Reversal in this framework.	Shadow Reversal introduced for fraudulent credit card transactions handled by eligible banks.
Complaint rejection often lacked transparency.	Banks must provide reasons and supporting details for rejecting complaints.

Maximum Loss Covered

The scheme applies only where the **gross loss** arising from fraudulent EBTs is **up to ₹50,000.** If the gross loss exceeds ₹50,000, this specific compensation mechanism does not apply.

How Much Compensation Will Be Paid - The customer receives **85% of the Net Loss**, **or ₹25,000**, **whichever is lower. Net Loss = Gross Loss – Amount Recovered**

Example 1 - Fraud Amount = ₹40,000

Recovery before compensation = ₹10,000

Net Loss = ₹30,000

Compensation = 85% of ₹30,000

= ₹25,500

However,

the maximum compensation permitted is ₹25,000.

Therefore,

the customer receives **₹25,000.**

Who Bears the Cost of Compensation - The compensation is **not paid entirely by the customer's bank.** Instead, RBI has created a **shared funding mechanism**.

Depending on the nature of the fraud, the burden is shared among Reserve Bank of India, Customer's Bank & Beneficiary Bank (for domestic transactions).

Domestic Fraud & Cross-Border Fraud – Loss Below ₹29,412. Where compensation equals **85% of Net Loss(i:e Rs 25000)**, and the eligible loss is **less than ₹29,412** the contribution is shared as follows:

Institution	Share	Share	
Reserve Bank of India	**65% of Net Loss (Rs 29412)**	**76.48% of Compensation (Rs 25000)**	₹19,118
Customer's Bank	**10%**		₹2,941
Beneficiary Bank	**10%**		₹2,941
Customer (remaining loss)	**15%**		

The customer therefore still bears **15% of the net loss**, while the remaining **85%** is compensated.

Meaning of Beneficiary Bank - The **Beneficiary Bank** is the bank where the fraudulently transferred money is first credited. If the fraud amount is split across multiple beneficiary banks, each beneficiary bank contributes in proportion to the amount credited to it.

Time Limit for Payment - After receiving the completed application, the customer's bank must release the compensation **within five calendar days.** This ensures that genuine victims receive financial relief quickly.

Reimbursement by RBI - After paying compensation, the customer's bank can seek reimbursement from RBI for RBI's share.

The reimbursement process is as follows:

- Claims are submitted **quarterly**.
- Applications must be sent to RBI in the prescribed format.
- The claim must be certified by a senior executive authorised by the bank's top management.
- RBI settles claims on a **net basis**, after adjusting amounts that the bank owes as a beneficiary bank in other cases.

Duration of the Compensation Scheme - The compensation mechanism is **temporary**. It is applicable only to **fraudulent EBTs occurring within one year from the effective date of the Directions**, i.e., for transactions occurring up to **31 December 2027**. Banks must retain related records for **two years** from the closure of the compensation mechanism for audit, supervision and review purposes.

RBI Proposes Stricter Data Governance Framework for Regulated Entities

What: The **Reserve Bank of India (RBI)** has proposed a comprehensive **Data Governance Framework** for banks, NBFCs, and other regulated entities to strengthen data management, reduce data-related risks, and improve accuracy, security, and reliability of financial information.

Key Highlights

- **New data governance framework proposed:** RBI has released draft guidelines requiring regulated entities (REs) to establish robust processes for managing data risks as part of their overall risk management framework.
- **Wide coverage:** The proposed framework will apply to **commercial banks, small finance banks, payments banks, cooperative banks, regional rural banks (RRBs), non-banking financial companies (NBFCs), all-India financial institutions, asset reconstruction companies (ARCs), and credit information companies**.
- **Focus on data quality and security:** The guidelines emphasize ensuring **accuracy, consistency, confidentiality, integrity, availability, and traceability of data** throughout its lifecycle.
- **Single Source of Truth (SSOT):** Every regulated entity will be required to maintain a **single authoritative source for each data element**, ensuring that all systems, models, and business processes rely on consistent data.

- **Board-level oversight:** RBI has proposed that the board of directors oversee the data governance framework. Entities must either create a dedicated **Board-level Data Governance Committee** or assign the responsibility to an existing board committee.
- **Responsibilities of the committee:** The committee will approve data governance policies, oversee implementation, review material breaches, and report key data governance issues to the board.
- **Data lifecycle management:** Regulated entities must establish governance mechanisms covering the entire data lifecycle, including collection, storage, processing, sharing, usage, and disposal of data.
- **Third-party data arrangements covered:** The framework also includes regulatory expectations relating to **data-sharing arrangements with third parties**, metadata management, data lineage, and data architecture.
- **Risk mitigation objective:** RBI noted that weak data governance can expose financial institutions to **financial, operational, compliance, cyber-security, and reputational risks**.
- **Preparation for future regulations:** The move is also aimed at strengthening data infrastructure ahead of the implementation of the **Expected Credit Loss (ECL) framework**, which requires high-quality and reliable data.

Q.) Under the RBI's proposed Data Governance Framework, every regulated entity will be required to maintain what for each data element?
[a] Multiple independent databases
[b] A centralised public database
[c] A Single Source of Truth
[d] A blockchain-based ledger
[e] A separate data warehouse for each department

Solution – [c]
Explanation:
The RBI has proposed that every regulated entity maintain a Single Source of Truth (SSOT) for each data element. This will ensure that all systems, models, and business processes rely on consistent, accurate, and authoritative data.

RBI Prudential Norms on Specified Non-Financial Assets (SNFAs) 2026

Introduction

On 16 July 2026, RBI issued a comprehensive prudential framework governing Specified Non-Financial Assets (SNFAs) acquired by Regulated Entities (REs). These norms were introduced through amendments to the Resolution of Stressed Assets (RSA) Directions and the Income Recognition, Asset Classification and Provisioning (IRACP) Directions applicable to various categories of financial institutions. The Directions are issued under Sections 21 and 35A of the Banking Regulation Act, 1949, The directions come into force with effect from 1st October 2026.

The framework applies to:

- Commercial Banks
- Small Finance Banks (SFBs)
- Non-Banking Financial Companies (NBFCs)
- All India Financial Institutions (AIFIs)
- Urban Co-operative Banks (UCBs)
- Rural Co-operative Banks (RCBs)
- Regional Rural Banks (RRBs)
- Local Area Banks (LABs)

The directions seek to establish uniform prudential treatment, valuation, accounting, income recognition, provisioning and disposal norms for immovable assets acquired by lenders while recovering dues from defaulting borrowers.

Need for the direction:

Banks and financial institutions are primarily engaged in financial intermediation, not in owning or managing real estate. However, when borrowers default, lenders may sometimes acquire immovable properties in satisfaction of their outstanding claims. RBI observed that different institutions followed different accounting and valuation practices for such assets, leading to lack of consistency and prudential concerns. Therefore, RBI introduced a dedicated framework governing such assets.

Background

Earlier Framework (Before 2026)

Prior to these amendments RBI had detailed norms regarding:

- Resolution of stressed assets.
- Restructuring of loans.
- Asset classification.
- Provisioning requirements.
- Income recognition.

Before the issuance of these Directions, there was no comprehensive regulatory framework specifically governing immovable assets acquired by regulated entities during the recovery of stressed loans. As a result, different institutions followed different accounting, valuation and income recognition practices, leading to a lack of uniformity. Further, there were no common rules for the timely disposal of such assets, allowing institutions to hold non-financial assets for long periods despite not being in the business of owning them. Therefore, RBI introduced the Specified Non-Financial Assets (SNFA) framework to establish a uniform and transparent system for managing these assets.

Draft Directions – 5 May 2026

RBI issued **Draft Directions on Prudential Norms on Specified Non-Financial Assets (SNFA)** on **5 May 2026** and invited stakeholder feedback. After examining the feedback received, RBI incorporated suitable modifications and issued the final framework on 16 July 2026.

Objectives of the Directions

The objective of the Prudential Norms on Specified Non-Financial Assets (SNFAs) is to provide a uniform framework for the acquisition, valuation, accounting, disclosure and disposal of immovable assets acquired by regulated entities while recovering stressed loans. The framework promotes transparent financial reporting, prudent asset valuation, timely disposal of recovered assets, stronger governance and greater financial stability across the banking and financial system.

Institution wise applicability of the framework:

Commercial Banks

Policy Framework
Every Commercial Bank is required to formulate a comprehensive Board-approved policy governing the acquisition, management and disposal of Specified Non-Financial Assets (SNFAs). Since acquisition of immovable assets is only incidental to the recovery process, RBI has emphasised that banks should have a clearly defined internal framework instead of taking decisions on a case-by-case basis.

The policy should clearly specify:

- The maximum permissible limit of SNFAs as a percentage of the bank's total assets.
- Eligibility criteria for acquisition of an SNFA, including circumstances in which acquisition may be considered appropriate.
- A delegation matrix, specifying the authority responsible for approving such acquisitions.

- The recovery measures that must be explored before deciding to acquire an SNFA.
- The maximum period for which an SNFA may be retained by the bank, which shall not exceed seven years.
- Internal monitoring and review mechanisms to ensure timely disposal and compliance with RBI norms.

Need for the policy framework

The acquisition of immovable assets is not part of the normal business of banks or other regulated entities, whose primary role is to provide financial services. Without a standard policy, different branches or officials may follow different practices while acquiring, valuing and disposing of such assets, leading to inconsistency and governance issues. Therefore, RBI has made it mandatory for every regulated entity to have a Board-approved SNFA Policy. This ensures uniform decision-making across the institution, stronger governance and accountability, better risk management, transparent handling of recovered assets and timely disposal of properties, preventing institutions from holding non-financial assets for an unnecessarily long period.

Key concept

Specified Non-Financial Asset (SNFA)
A Specified Non-Financial Asset (SNFA) means an immovable asset acquired by a regulated entity in full or partial satisfaction of its claims against a borrower. In the case of banks, it also includes Non-Banking Assets (NBAs) acquired under the Banking Regulation Act.

Non-Banking Asset (NBA)
A Non-Banking Asset (NBA) refers to an asset acquired by a bank in satisfaction of its claims but which is not used for banking business.
Example: Land, Building, Factory premises, Commercial property, Residential property

The Directions apply to:

- New SNFAs acquired after the Directions came into force.

- Legacy SNFAs, i.e., immovable assets already held by banks as on 30 September 2026.

Banks have been granted a transition period to align legacy assets with the new prudential framework. Compliance for all such assets must be achieved by 30 September 2027.

Significance

By covering both existing and future assets, RBI ensures that there is a uniform prudential treatment across the banking sector instead of maintaining two different accounting systems.

Conditions for Acquisition of an SNFA

A Commercial Bank can acquire an SNFA only after fulfilling the following conditions:

- **Borrower's account must be classified as an NPA**
  The exposure should already be classified as a Non-Performing Asset (NPA) before the bank acquires the immovable asset. Banks cannot acquire properties in respect of standard or performing accounts merely for convenience.
- **Legal ownership must be transferred**
  An asset is treated as an SNFA only after the legal title is transferred in the name of the bank and the bank obtains complete ownership and control over the property. Mere possession or symbolic possession is not sufficient.
- **Acquisition should extinguish the debt**
  The immovable property should be accepted against full or partial extinguishment of the outstanding exposure on a non-recourse basis, meaning that the extinguished portion of the debt is treated as finally settled.

Key concept

Non-Performing Asset (NPA)
An NPA is a loan where interest or principal remains overdue for more than 90 days.
Under the SNFA framework, acquisition of an SNFA is allowed only when the exposure is classified as NPA.

Non-Recourse Basis
A transaction is on a non-recourse basis when, after transfer of the asset, the lender cannot claim anything further from the borrower with respect to the extinguished portion of the debt. Thus, the debt is considered settled to that extent.

Full and Partial Extinguishment

Full Extinguishment

Under full extinguishment, the entire outstanding loan is settled through acquisition of the immovable property.

Example:
Outstanding loan = ₹30 crore
Property acquired = ₹30 crore
Outstanding exposure after acquisition = Nil.

Partial Extinguishment

Where only a part of the outstanding exposure is settled through acquisition of the property, the remaining exposure continues to exist.

Example:
Outstanding loan = ₹100 crore
Property acquired = ₹60 crore
Residual exposure = ₹40 crore.

RBI has clarified that partial extinguishment shall be treated as restructuring, and the remaining exposure will continue to attract the prudential norms applicable to restructured accounts.

Valuation of SNFAs

To ensure conservative accounting, RBI requires every SNFA to be recorded initially at the lower of:

- Net Book Value (NBV) of the extinguished exposure, or
- Distress Sale Value (DSV) of the property determined by at least two independent external valuers.

This prevents overstatement of asset values and ensures that banks do not recognise unrealistically high values for recovered properties.

Net Book Value (NBV)

Net Book Value means: Outstanding exposure minus provisions already held by the regulated entity.

Formula: NBV = Outstanding Loan – Specific Provisions

Example:

Loan outstanding = ₹100 crore

Provision = ₹20 crore

NBV = ₹80 crore

Distress Sale Value (DSV)

Distress Sale Value refers to the estimated value that can realistically be realised through a quick or forced sale of the asset.This value must be determined by at least two independent external valuers.

Valuation in Case of Partial Extinguishment

Where only part of the outstanding loan is extinguished, the **Net Book Value must also be calculated proportionately**.

For example:

- Outstanding loan = ₹2 lakh
- Specific provision = 10%
- Net Book Value = ₹1.8 lakh
- Loan extinguished = 75%
- Distress Sale Value = ₹1.4 lakh

The proportionate NBV is **75% × ₹1.8 lakh = ₹1.35 lakh**.

Since the asset is recorded at the lower of NBV and DSV, it will be recognised at **₹1.35 lakh**.

Subsequent Measurement

After acquisition, the SNFA is not carried permanently at its initial value. At every reporting date, the bank must reassess its carrying amount and recognise any reduction in value in accordance with RBI's prudential requirements. This ensures that the balance sheet reflects the asset's realistic recoverable value.

Provisioning

Commercial Banks are required to maintain adequate provisions whenever the carrying amount of an SNFA exceeds its recoverable value. Timely recognition of losses improves transparency, prevents window dressing of financial statements and strengthens the bank's financial position.

Disposal of SNFAs

Since banks are not real estate businesses, RBI expects them to dispose of acquired immovable assets at the earliest.

Accordingly:

- A bank shall make all efforts to dispose of the SNFA at the earliest through a public auction
- The maximum holding period shall not exceed seven years.
- A SNFA shall not be sold back to the borrower or its related parties
- A SNFA put to the bank's own use shall cease to be classified as an SNFA from the date of being put to use and shall be recorded under the accounting head 'Fixed assets' or under any other relevant accounting head.

The objective is to convert non-financial assets into liquid funds and redeploy them for normal banking activities.

Disclosure Requirements

To ensure transparent and uniform reporting, RBI has prescribed the following disclosure requirements for SNFAs:

- **Separate Disclosure in Financial Statements**

SNFAs should not be included under Gross NPA, Net NPA, Residual Exposure, Stressed Exposures or Provisioning Coverage Ratio (PCR), as they are no longer loan assets. Instead, they should be disclosed separately in the balance sheet under the head "Non-banking assets acquired in satisfaction of claims."

- **Reporting to RBI**
  Banks must report details of all SNFAs to RBI through the Centralised Information Management System (CIMS) Portal in the prescribed format.

Income Recognition (IRACP Amendment)

To complement the SNFA framework, RBI also amended the Income Recognition, Asset Classification and Provisioning (IRACP) Directions.

Unrealised Interest

Any interest or charges that had accrued but were not yet realised on the extinguished exposure cannot be treated as income when the SNFA is acquired. If such unrealised income has already been recognised for existing (legacy) SNFAs, it must be reversed through the Profit and Loss Account by 30 September 2027.

Income from SNFA

Any income generated from an SNFA (such as rent or sale proceeds) should be recognised as non-interest/other income only in the financial year in which it is actually realised.

Key Implications

- Introduces a uniform prudential framework for recovered immovable assets.
- Strengthens governance through Board-approved policies.
- Prevents overvaluation of recovered properties.
- Ensures conservative accounting and prudent income recognition.
- Promotes timely disposal of non-financial assets.
- Enhances transparency, comparability and financial stability.

Applicability to Other Regulated Entities

The **same regulatory framework** relating to the acquisition, valuation, provisioning, income recognition, disclosure and disposal of **Specified Non-Financial Assets (SNFAs)** has also been extended to **Small Finance Banks (SFBs), Urban Co-operative Banks (UCBs), Rural Co-operative Banks (RCBs), Regional Rural Banks (RRBs), Local Area Banks (LABs) and All India Financial Institutions (AIFIs)**. Therefore, these institutions are required to follow **the same provisions applicable to Commercial Banks**, with no material changes in the prudential requirements.

For **Non-Banking Financial Companies (NBFCs)**, the provisions are also **substantially the same**. However, unlike banks, the Directions have been issued under the **Reserve Bank of India Act, 1934** (along with other applicable laws such as the **National Housing Bank Act, 1987**, and the **Factoring Regulation Act, 2011**, wherever applicable) instead of the **Banking Regulation Act, 1949**. Thus, the difference lies only in the **legal framework** under which the Directions have been issued and the existing Master Directions that have been amended, while the regulatory requirements remain largely identical.

Q.1) Consider the following statements regarding Specified Non-Financial Assets (SNFAs):

1. SNFAs are immovable assets acquired by regulated entities in satisfaction of their claims.
2. A regulated entity can acquire an SNFA even if the borrower's account is a Standard Asset.
3. Acquisition of an SNFA requires legal transfer of ownership to the regulated entity.

Which of the statements given above is/are correct?

[a] 1 and 2 only
[b] 1 and 3 only
[c] 2 and 3 only
[d] 1, 2 and 3
[e] 1 only

Correct Answer - b

solution:

Statement 1: Correct. SNFAs are immovable assets acquired by regulated entities in satisfaction of their claims.

Statement 2: Incorrect. An SNFA can be acquired only after the borrower's account is classified as a Non-Performing Asset (NPA).

Statement 3: Correct. An asset becomes an SNFA only after legal ownership is transferred to the regulated entity

Q.2) Consider the following statements regarding income recognition in case of SNFAs:

1. Accrued but unrealised interest relating to the extinguished exposure shall not be recognised as income upon acquisition of an SNFA.
2. Income realised from an SNFA is recognised as Interest Income.
3. Upkeep expenses relating to an SNFA are recognised in the financial year in which they are incurred.

Which of the statements given above is/are correct?

[a] 1 and 2 only
[b] 2 and 3 only
[c] 1 and 3 only
[d] 3 only
[e] 1, 2 and 3

Correct Answer - c

Explanation:

Statement 1: Correct. Unrealised interest cannot be recognised as income when an SNFA is acquired.

Statement 2: Incorrect. Income from an SNFA is recognised as 'Non-interest/Other Income', not as Interest Income.

Statement 3: Correct. Expenses incurred for maintenance or upkeep of an SNFA are recognised in the Profit and Loss Account in the year in which they are incurred.

Q.3) Under the SNFA Directions, the maximum period for retaining an SNFA, as prescribed in the Board-approved policy, shall not exceed:

[a] 3 years

[b] 5 years

[c] 7 years

[d] 10 years

[e] 8 years

Correct Answer: C

solution: Under the SNFA Directions, the maximum period for retaining an SNFA, as prescribed in the Board-approved policy is 7 years

Q.4) Partial extinguishment of a loan through acquisition of an SNFA is treated by RBI as:

[a] Standard Asset

[b] Restructuring

[c] Technical Write-off

[d] Wilful Default

[e] Loss asset

Correct Answer: B

solution: Partial extinguishment of a loan through acquisition of an SNFA is treated by RBI as restructuring

RBI Consolidates Guidelines on Special Rupee Vostro Accounts (SRVAs)

Introduction

On 17 July 2026, the Reserve Bank of India (RBI) issued a circular to consolidate and rationalise the existing instructions relating to Special Rupee Vostro Accounts (SRVAs) used for the settlement of international trade in Indian Rupees (INR). The circular supersedes five earlier circulars issued between 2022 and 2025, bringing all key provisions under a single framework.

The revised framework aims to simplify the operational guidelines for cross-border trade settlement in INR, promote the internationalisation of the Indian Rupee, and facilitate smoother trade and investment transactions under the Foreign Exchange Management Act (FEMA), 1999.

Key concept

Special Rupee Vostro Account (SRVA)
A Special Rupee Vostro Account is a rupee-denominated account maintained by an Authorised Dealer Bank in India on behalf of a foreign bank. It facilitates settlement of international trade and other permissible cross-border transactions in Indian Rupees (INR) instead of foreign currency.

Vostro Account
A Vostro Account is an account maintained by a domestic bank on behalf of a foreign bank in the domestic currency. ("Vostro" means "your account with us.")

Key Updates

Consolidated Framework for SRVAs

The RBI has combined the provisions of earlier circulars into a single comprehensive framework. This simplifies compliance for banks and provides greater clarity regarding the operation and use of SRVAs.

Opening of Special Rupee Vostro Accounts

Authorised Dealer (AD) Banks in India can open Special Rupee Vostro Accounts (SRVAs) for their overseas branches or foreign correspondent banks without requiring prior approval from the RBI, as permitted under the Foreign Exchange Management (Deposit) Regulations, 2016.

Wider Scope of Transactions

SRVAs continue to be used for settlement of exports and imports in Indian Rupees. In addition, the circular permits all permissible current account and capital account transactions under FEMA to be settled through these accounts, thereby expanding their scope beyond trade transactions.

Additional Current Account for Trade Settlement

AD Banks maintaining an SRVA are permitted to open an additional current account for exporters and importers exclusively for settling export and import transactions through the SRVA mechanism. This facilitates smoother operational management of trade payments.

Funding and Use of SRVA Balances

An SRVA may be funded through Inward remittances, Transfers from other repatriable INR accounts, Proceeds from permissible current and capital account transactions under FEMA. This provides greater flexibility in managing balances held in the account.

Investment of Surplus Balances

Surplus balances available in an SRVA may be invested in permitted debt instruments in accordance with the RBI (Non-resident Investment in Debt Instruments) Directions, 2025, allowing productive use of idle funds.

Documentation, Reporting and SRVA Directory

Cross-border transactions through SRVAs will continue to follow the existing FEMA documentation and reporting requirements. Further, details of SRVAs maintained by overseas correspondent banks with Indian AD Banks will be periodically updated in the SRVA Directory published by FEDAI, improving transparency and ease of reference.

Key concept

Authorised Dealer (AD) Bank
An Authorised Dealer Bank is a bank authorised by the RBI under FEMA, 1999 to deal in foreign exchange and undertake foreign exchange transactions.

Current Account Transaction (FEMA)
A current account transaction refers to payments related to trade in goods and services, remittances, travel, education, interest, dividends, and other current business transactions, as permitted under FEMA.

Capital Account Transaction (FEMA)
A capital account transaction is one that alters the assets or liabilities of a resident or non-resident, such as investments, loans, borrowing, or acquisition of property.

FEDAI (Foreign Exchange Dealers' Association of India)
FEDAI is a self-regulatory body of banks dealing in foreign exchange. It issues operational guidelines and maintains the SRVA Directory for participating banks.

Circulars/Directions Consolidated under the RBI Circular on Special Rupee Vostro Accounts

Sl. No.	Circular / Direction	Date
1.	A.P. (DIR Series) Circular No. 10 – International Trade Settlement in Indian Rupees (INR)	11 July 2022
2.	Circular No. 08 – International Trade Settlement in Indian Rupees (INR)	17 November 2023
3.	Circular No. 11 – International Trade Settlement in Indian Rupees (INR)	11 June 2024

4.	A.P. (DIR Series) Circular No. 08 – Opening of Special Rupee Vostro Accounts (SRVAs) without prior RBI approval	05 August 2025
5.	A.P. (DIR Series) Circular No. 14 – Investment of Surplus Balances held in SRVAs	03 October 2025

Q.1) Consider the following statements about Special Rupee Vostro Accounts (SRVAs):

1. SRVAs facilitate settlement of international trade in Indian Rupees (INR).
2. Surplus balances held in SRVAs can be invested in permitted debt instruments as per RBI directions.
3. Documentation and reporting requirements for SRVAs are governed by FEMA guidelines.

Which of the statements given above is/are correct?

[a] 1 and 2 only
[b] 2 and 3 only
[c] 1 and 3 only
[d] 1, 2 and 3
[e] 1 only

Correct Answer: D

solution: All three statements are correct. The circular allows settlement of trade in INR, investment of surplus balances in eligible debt instruments, and requires compliance with FEMA documentation and reporting guidelines.

Q.2) Under the revised framework, Special Rupee Vostro Accounts (SRVAs) may be used for:

[a] Settlement of export transactions only
[b] Settlement of import transactions only
[c] Settlement of only capital account transactions under FEMA
[d] Settlement of exports, imports and all permissible current and capital account transactions under FEMA
[e] Settlement of domestic transactions only

Correct Answer: [d]

solution: The revised framework expands the scope of SRVAs to cover all permissible current and capital account transactions under FEMA, in addition to export and import settlements

RBI (Governance) Amendment Directions, 2026

Introduction

The Reserve Bank of India (RBI) has issued the RBI (Governance) Amendment Directions, 2026 to streamline the governance framework relating to matters that must be placed before the Board of Directors of banks. The Directions shall come into force from 1 October 2026.

Earlier, RBI had prescribed Board-related requirements through several governance directions and circulars. This resulted in Boards spending significant time on procedural and compliance matters instead of focusing on strategy, governance and risk oversight.

The Amendment Directions replace the earlier rule-based approach with a principle-based governance framework, remove stringent reporting requirements, and provide greater flexibility to Boards in deciding their agenda while preserving accountability.

Objective

The RBI (Governance) Amendment Directions, 2026 aim to improve the effectiveness of bank Boards by allowing them to spend more time on strategy, governance and risk management instead of routine compliance. The Directions also introduce a principle-based governance framework, consolidate Board-related requirements into one place, and allow Boards to delegate certain operational matters while retaining overall responsibility.

Need for the Amendment

Earlier, Board-related requirements were spread across many RBI circulars and included several detailed procedural requirements. This made Board meetings more compliance-focused and reduced time for important discussions. Therefore, RBI introduced these amendments to simplify the framework, remove unnecessary requirements, and help Boards focus on better governance, business strategy and risk oversight.

Amendments:

Commercial Banks:

Principle-based governance introduced

RBI has replaced the earlier detailed and rule-based approach with a principle-based governance framework. Instead of prescribing every matter in detail, RBI has laid down broad principles, giving Boards more flexibility to decide their agenda while ensuring proper governance and risk oversight.

Earlier procedural requirements removed

To reduce unnecessary compliance, RBI has removed several procedural requirements such as the Seven Broad Themes for Board meetings, mandatory Action Taken Reports (ATRs), and the compulsory requirement to place every regulatory update before the Board.

Board's key responsibilities clearly defined

The Board must now mainly focus on:

- Business strategy and financial soundness.
- Risk management framework and policies.
- Exposure to related entities (such as subsidiaries).
- Compliance with corporate governance standards.

Board Matters Consolidated

To simplify the governance framework, RBI has now consolidated these requirements into three appendices, making it easier for banks to identify which matters require Board involvement.

- **Appendix I** lists the important policies that must be approved by the Board of Directors, such as policies relating to credit, investment, risk management, IT, outsourcing, customer service, and business conduct. While the review of some policies may be delegated to Board Committees, the Board must approve any material (significant) amendments.
- **Appendix II-A** contains non-policy matters that must be placed before the Board for approval, review, or information. These include important business decisions, governance matters, risk-related issues, compliance reports, and other significant developments requiring the Board's attention.
- **Appendix II-B** contains operational matters that the Board may, at its discretion, delegate to Board Committees or Management Committees. This reduces the Board's workload and allows it to focus on strategic issues, while the Board continues to retain ultimate responsibility for the bank's governance and functioning.

Greater delegation of powers

Key concept

Principle-based Governance
A regulatory approach where RBI lays down broad governance principles instead of prescribing detailed procedural requirements. Banks have flexibility in implementation while remaining accountable for outcomes.

Board of Directors (Board)
The highest governing body of a bank responsible for strategic direction, oversight, governance, risk management and ensuring financial soundness.

Board Committees
Committees constituted by the Board (such as Audit Committee, Risk Management Committee, IT Strategy Committee, etc.) to perform specialised functions delegated by the Board.

Management Committee
A committee consisting of senior management officials to whom certain operational matters may be delegated by the Board.

The amendment allows the Board to delegate certain matters to Board Committees or Management Committees, wherever permitted by RBI. These include the review of policies, certain credit-related matters, Asset Liability Management (ALM) matters, liquidity risk management, market risk management, operational risk management, stress testing, outsourcing-related decisions, responsible business conduct, debit card issuance, etc. However, the Board of Directors continues to have the ultimate responsibility.

Better functioning of the Board
The amendment requires the Board to:

- Clearly identify matters that need Board approval.
- Ensure it receives sufficient information from the management.
- Periodically review the powers delegated to committees.
- Spend adequate time on strategy and risk governance.
- The Chairperson will have the primary responsibility for preparing the Board meeting agenda.

Small Finance Banks (SFBs) and Local Area Banks (LAB)

The governance framework for Local Area Banks (LABs) and Small Finance Banks (SFBs) is substantially similar to that applicable to Commercial Banks.

Payments Banks (PBs)

- The governance framework is largely similar to that of Commercial Banks.
- Since Payments Banks cannot undertake regular lending, credit-related policies (such as credit facilities, stressed asset resolution, and credit risk management) have not been included.
- Instead, the Board approval framework places greater emphasis on Digital Banking, Prepaid Payment Instruments (PPIs), and the Model of Insurance Distribution, reflecting the payment-focused business model of Payments Banks.

Q.1) Which of the following statements is/are correct regarding the RBI (Governance) Amendment Directions, 2026?

1. The amendment introduces a principle-based governance framework.
2. The mandatory requirement of Seven Broad Themes for Board meetings has been removed.
3. The Board can delegate its overall responsibility for governance to Board Committees.

[a] 1 only
[b] 2 only
[c] 1 and 2 only
[d] 2 and 3 only
[e] 1, 2 and 3

Correct Answer: [c]

Solution: The Board may delegate functions but cannot delegate its ultimate responsibility.

Q.2) What is the primary objective of the RBI (Governance) Amendment Directions, 2026?

[a] to increase the frequency of Board meetings in banks
[b] to shift the Board's focus from routine compliance to strategic governance and risk oversight
[c] to make RBI approval mandatory for all Board decisions
[d] to replace Board Committees with Management Committees
[e] to prescribe uniform Board agendas for all banks

Correct Answer: B

Solution: the primary objective of the RBI (Governance) Amendment Directions, 2026 is to shift the Board's focus from routine compliance to strategic governance and risk oversight

Foreign Exchange Management (Foreign Investment) Rules, 2026 (Draft)

Introduction

Ministry of Finance (Department of Economic Affairs) released the **Draft Foreign Exchange Management (Foreign Investment) Rules, 2026** for public comments. These rules have been made under the **Foreign Exchange Management Act (FEMA), 1999** and will replace the **Foreign Exchange Management (Non-Debt Instruments) Rules, 2019** after they are officially notified.

The draft rules aim to make India's foreign investment regulations **simpler, clearer and easier to understand**. Instead of having many scattered rules and amendments, the Government has brought them together into one comprehensive framework. The draft also clearly separates the responsibilities of the **Government** and the **Reserve Bank of India (RBI)**, making the system more transparent and investor-friendly.

Key concept

FEMA (Foreign Exchange Management Act, 1999)
FEMA regulates foreign exchange transactions and foreign investments in India. Its main objective is to facilitate international trade and maintain an orderly foreign exchange market.

Amendments and Major Provisions

Applicability:

The new rules apply to:

- Foreign investment in the equity of eligible Indian entities.
- Transfer of such foreign investment.

However, they **do not apply** to investments made in financial institutions located in an **International Financial Services Centre (IFSC)**.

Key concept

International Financial Services Centre (IFSC):
An IFSC is a special financial zone created to provide international financial services. India's first IFSC is located in **GIFT City, Gujarat**

More Indian Entities can receive Foreign Investment

The draft increases the number of entities that can receive foreign investment.

These include:

- Companies
- Limited Liability Partnerships (LLPs)
- Real Estate Investment Trusts (REITs)
- Infrastructure Investment Trusts (InvITs)
- Alternative Investment Funds (AIFs)
- Venture Capital Funds
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Partnership firms
- Proprietorship firms

Clear Division of Responsibilities between Government and RBI

The draft rules introduce a clear division of responsibilities between the Government of India and the Reserve Bank of India (RBI)

The Government, through the Department for Promotion of Industry and Internal Trade (DPIIT), will be responsible for framing India's Foreign Direct Investment (FDI) Policy. This includes deciding which sectors are open to foreign investment, the maximum percentage of foreign investment (sectoral caps) permitted in each sector, the entry route for investment (Automatic Route or Government Route), and any sector-specific conditions that foreign investors must satisfy. Thus, all policy decisions relating to foreign investment will remain under the Government's control.

The Reserve Bank of India (RBI), on the other hand, will be responsible for the administration and implementation of these rules. The RBI will prescribe the mode of payment for foreign investments, specify the reporting requirements that investors and Indian entities must follow, and issue detailed regulations, directions, circulars, instructions, and clarifications to ensure the smooth implementation of the rules.

In other words, while the Government will decide what the foreign investment policy should be, the RBI will decide how that policy will be implemented in practice.

Key concept

Sectoral Cap
The maximum percentage of foreign investment allowed in a particular sector.

Automatic Route
Foreign investment does not require prior Government approval.

Government Route
Foreign investment requires prior approval from the Government.

Clear Definitions of FDI and FPI

The draft clearly defines different types of foreign investment.

- **Foreign Investment**

The draft defines foreign investment as any investment made by a person resident outside India in the equity of an eligible Indian entity, either directly or indirectly. Eligible Indian entities include companies, Limited Liability Partnerships (LLPs), investment vehicles, partnership firms and proprietorship concerns covered under the rules.

- **Foreign Direct Investment (FDI)**

The draft defines **FDI** as foreign investment of **10% or more** in the equity of a company or LLP. Such investments generally represent a **long-term investment**, where the investor has a significant ownership stake and may also have the ability to influence the company's management or business decisions.

- **Foreign Portfolio Investment (FPI)**

The draft defines **FPI** as foreign investment of **less than 10%** in the equity of a company or LLP. These investments are usually made to earn returns from the financial markets and generally do not give the investor control or significant influence over the company's management.

By clearly defining FDI and FPI based on the **10% ownership threshold**, the draft removes ambiguity and creates a uniform classification of foreign investments. This will make it easier for investors, companies and regulators to identify the applicable rules and ensure consistent implementation of India's foreign investment framework.

Introduction of Foreign Controlled Entity (FCE)

The draft introduces the concept of a **Foreign Controlled Entity (FCE).** A Foreign Controlled Entity (FCE) is an Indian company, LLP or investment vehicle that is owned or controlled by a person living outside India.

Different Ways to Make Foreign Investment

The draft allows foreign investors to invest in India through different methods, such as:

- Buying newly issued shares.
- Purchasing existing shares.
- Receiving shares as a gift (subject to conditions).
- Pledging shares.
- Investing through Depository Receipts.
- Investing in the National Pension System (NPS).
- Investing through international stock exchanges.

Key concept

NRI
An Indian citizen who lives outside India.

OCI
A foreign citizen of Indian origin who holds an OCI Card. An OCI is not an Indian citizen but enjoys several benefits in India.

National Pension System (NPS
A voluntary retirement savings scheme regulated by the Pension Fund Regulatory and Development Authority (PFRDA).

Repatriation
Transfer of money or investment proceeds from India to another country.

Non-Repatriation Basis
The investment and its returns cannot be freely transferred outside India.

NRIs and OCIs can invest in the National Pension System (NPS)

The draft proposes that Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) can subscribe to the National Pension System (NPS) if they are eligible under the PFRDA Act. The pension amount and annuity can be repatriated, meaning the money can be transferred outside India after retirement.

Direct Overseas Listing of Indian Companies

The draft creates a legal framework that allows eligible Indian public companies to list their shares directly on recognised international stock exchanges.

Companies can:

- Issue new shares overseas.
- Allow existing shareholders to sell their shares on international stock exchanges.

Some important conditions are:

- The company must follow the Companies Act and other applicable laws.

- Foreign investment must remain within the sectoral cap.
- Shares must be recorded in Indian Rupees.
- If the company is already listed in India, it must also comply with SEBI regulations and the overseas shares will have the **same rights** as the shares listed in India (**pari passu**).

Key concept

Direct Overseas Listing:
Listing a company's shares directly on a foreign stock exchange.

Pari Passu:
A Latin term meaning "equal in all respects." It means overseas-listed shares will enjoy the same rights and benefits as shares listed in India.

General Conditions for Foreign Investment

The draft states that foreign investment must follow Entry routes, Sectoral caps, Sector-specific conditions.

It also provides that:

- Investors buying shares through Indian stock exchanges must comply with SEBI rules.
- RBI will prescribe rules for investments through Special Rupee Vostro Accounts.
- If an FPI's investment reaches 10% or more, it may be treated as FDI after following the prescribed conditions.

Key concept

Special Rupee Vostro Account (SRVA):
A rupee account maintained by an Indian bank for a foreign bank to facilitate international trade and investment in Indian Rupees.

Pricing Rules

The draft provides clear pricing rules for foreign investment to ensure fair valuation.

- **Listed companies:** The share price will be determined according to SEBI regulations.
- **Companies listed on international stock exchanges:** For a company's first overseas listing, the price will be decided through the book-building process of the concerned international stock exchange. If the company is already listed in India, the overseas issue price cannot be lower than the price offered to domestic investors for a similar issue.
- **Unlisted companies:** The share price must be based on an internationally accepted valuation method and certified by a Chartered Accountant (CA), Merchant Banker, or Cost Accountant.

These pricing rules do not apply to rights issues, where existing shareholders are offered additional shares.

Investment on Non-Repatriation Basis

Foreign investment made on a non-repatriation basis is generally exempt from many conditions of these rules. However, such investments are still not allowed in prohibited sectors.

Q.1) Consider the following statements regarding the Draft Foreign Investment Rules, 2026:

(1) DPIIT will frame India's Foreign Direct Investment (FDI) Policy.

(2) RBI will prescribe payment methods and reporting requirements.

(3) RBI will decide sectoral caps for foreign investment.

Which of the statements given above is/are correct?

[a] 1 only

[b] 2 only

[c] 1 and 2 only

[d] 2 and 3 only

[e] 1, 2 and 3

Correct Answer: C

Solution: statement 1 and 2 are correct. Statement 3 is incorrect.

Q.2) Consider the following statements regarding the Draft Foreign Exchange Management (Foreign Investment) Rules, 2026:

1. The rules do not apply to investments in financial institutions set up in an International Financial Services Centre (IFSC).
2. The draft allows NRIs and OCIs to subscribe to the National Pension System (NPS), subject to eligibility conditions.
3. The draft introduces the concept of a Foreign Controlled Entity (FCE).

Which of the statements given above is/are correct?

[a] 1 and 2 only

[b] 2 and 3 only

[c] 1 and 3 only

[d] 1, 2 and 3

[e] 1only

Correct Answer: D

Solution: all the statements are correct.

RBI Draft Amendment Directions on Securitisation Transactions, 2026

Introduction

The Reserve Bank of India (RBI) has issued **Draft Amendment Directions, 2026** to amend the **Securitisation Transactions Directions, 2025** for different categories of regulated entities. The amendments introduce a **uniform framework** for the issuance and transfer of securitisation notes across Commercial Banks, Small Finance Banks (SFBs), Non-Banking Financial Companies (NBFCs) and All India Financial Institutions (AIFIs). The revised provisions will become effective from **1 October 2026**, after stakeholder consultation.

RBI proposed amendments to strengthen transparency, promote electronic holding of securities, align the framework with SEBI regulations, and improve investor protection and market efficiency.

Key concept

Securitisation is the process through which banks or financial institutions convert a pool of loans (such as home loans, vehicle loans or MSME loans) into marketable securities and sell them to investors through a **Special Purpose Entity (SPE)**.

Key Provisions

Commercial Banks

The following amendments apply to **Commercial Banks** and, except where specifically mentioned later, are **common to all regulated entities**.

- **Mandatory Dematerialisation of Securitisation Notes**
  All securitisation notes must be issued, held and transferred only in dematerialised (electronic) form. Physical certificates will no longer be permitted. This improves transparency, traceability and ease of transfer.
- **Minimum Ticket Size of ₹1 Crore**
  The minimum investment (ticket size) by a single investor will be ₹1 crore. This limit applies at the time of issuance, and during every subsequent transfer.
  Ticket size refers to the investment made by one investor, not the total size of the securitisation issue.
- **Responsibility of the Special Purpose Entity (SPE)**
  The agreement between the originator (bank/financial institution) and the Special Purpose Entity (SPE) must contain a clause requiring continuous compliance with the ₹1 crore minimum ticket size. The SPE must ensure that future transfers also satisfy this requirement.
- **Revised Definition of Public Offer**
  A securitisation issue will be treated as a public offer if it is offered to a number of investors equal to or exceeding the limit specified under Regulation 21 of the SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008, as amended from time to time. This aligns RBI's framework with SEBI's securities market regulations.

Small Finance Banks (SFBs)

No separate provisions. The same amendments applicable to commercial banks have been extended to Small Finance Banks.

Non-Banking Financial Companies (NBFCs)

No separate operational provisions.
The only difference is that the directions are issued under the relevant provisions of the RBI Act, National Housing Bank Act and Factoring Regulation Act, reflecting the wider range of entities covered under the NBFC framework.

All India Financial Institutions (AIFIs)

No separate operational provisions. The same amendments apply to AIFIs without any additional regulatory changes.

Key Implications

- **Greater transparency:** Mandatory dematerialisation eliminates physical securities and improves record keeping.
- **Better investor protection:** The ₹1 crore minimum ticket size ensures that securitisation investments remain largely with institutional and sophisticated investors.
- **Improved market integrity:** Continuous monitoring by the SPE prevents fragmentation of investments below the prescribed threshold.
- **Regulatory harmonisation:** Alignment with SEBI's definition of public offers creates consistency between RBI and securities market regulations.
- **Uniform securitisation framework:** Similar rules across banks, SFBs, NBFCs and AIFIs simplify compliance and reduce regulatory arbitrage.
- **More efficient secondary market:** Electronic issuance and transfer are expected to make trading and settlement faster and more secure.

Q.1) Consider the following statements regarding the RBI Draft Amendment Directions on Securitisation Transactions, 2026:

(1) The minimum ticket size refers to the total size of the securitisation issue.

(2) The purpose of mandatory dematerialisation is to improve transparency, efficiency and traceability.

(3) The revised framework seeks to reduce regulatory arbitrage by harmonising the rules across different regulated entities.

Which of the statements given above is/are correct?

[a] 2 only
[b] 2 and 3 only

[c] 1 and 2 only
[d] 1 and 3 only
[e] 1, 2 and 3

Correct Answer: [b] 2 and 3 only
solution:
Statement 1 is incorrect. Ticket size refers to the investment made by a single investor, not the total issue size. Statement 2 and 3 are correct.

Q.2) Which one of the following is NOT a feature of the RBI Draft Securitisation Transactions Amendment Directions, 2026?

[a] Mandatory issuance and transfer of securitisation notes in dematerialised form.
[b] Minimum ticket size of ₹1 crore at issuance and subsequent transfers.
[c] Alignment of the definition of a public offer with SEBI regulations.
[d] Mandatory listing of all securitisation notes on recognised stock exchanges.
[e] Continuous compliance with the minimum ticket size through a clause in the Originator–SPE agreement.

Correct Answer: [d] Mandatory listing of all securitisation notes on recognised stock exchanges.
Solution:
The draft directions do not mandate listing of all securitisation notes.

RBI Amendment Directions, 2026: Disclosure of Deposit Rates & Pricing Flexibility for Bulk Deposits

Introduction

On July 30, 2026, the Reserve Bank of India (RBI) issued a series of amendment directions modifying its Interest Rate on Deposits Directions, 2025 across various Regulated Entities (REs). **Issued under Section 35A (read with Section 56 for UCBs) of the Banking Regulation Act, 1949**, these amendments aim to bring enhanced operational transparency, strict non-discrimination, and regulatory alignment under the Liquidity Coverage Ratio (LCR) framework.

All provisions under these amendment directions will come into effect from **October 01, 2026.**

Background

Under the primary deposit directions released in late 2025, banks were given broad mandates on deposit rate disclosures and non-discriminatory pricing. However, rapid fluctuations in daily wholesale/bulk liquidity led to instances of private rate negotiations and opaque pricing practices.

Upon review, the RBI decided to revise the instructions to:

- Ensure daily, public time-bound disclosures for bulk deposit rates.
- Standardize branch-wide non-discrimination rules across customer segments.
- Provide banks flexibility in pricing domestic and non-resident bulk deposits based on Liquidity Coverage Ratio (LCR) run-off risks.

Key Implications & Amendments

Commercial Banks

Daily Disclosures & Grace Time for Bulk Deposits

- **General Disclosure:** Interest rates payable on all deposits must strictly follow the schedule disclosed in advance on the bank's website.
- **Mandatory Morning Window:** Bulk deposit interest rates must be published on the bank's website at 10:00 AM on each business day, with a grace time of 10 minutes (latest by 10:10 AM).

Strict Non-Discrimination & Branch Uniformity:

- Rates offered on deposits (including bulk deposits) must be uniform across all branches and for all customers. There shall be no discrimination in interest rates paid between one deposit and another of a similar amount accepted on the same date.

LCR-Linked Differential Pricing Freedom:

- **Domestic Rupee Bulk Deposits:** Banks now have explicit freedom to offer differential interest rates on bulk deposits by factoring in differential run-off rates applicable under the Liquidity Coverage Ratio (LCR) framework.
- **Non-Resident Rupee Bulk Deposits (NRE/NRO):** The same freedom to offer LCR run-off-linked differential interest rates is extended to Rupee deposits of non-residents.

Key concept

Bulk Deposit

A bulk deposit is a large-value term deposit accepted by a bank. Under RBI's Interest Rate on Deposits Directions, 2025, each bank's Board decides the minimum amount that qualifies as a bulk deposit, subject to RBI's prescribed limits. These deposits are generally considered less stable because large depositors may withdraw or shift their funds quickly in response to interest rate changes.

Retail Deposit

A retail deposit is a term deposit that does not qualify as a bulk deposit. These deposits are usually made by individuals and small businesses in relatively smaller amounts. Retail deposits are considered a more stable source of funding for banks because they are less likely to be withdrawn suddenly during periods of financial stress.

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) is a Basel III liquidity standard that requires banks to maintain enough High quality Liquid Assets (HQLA) to meet their expected net cash outflows during a 30-day period of financial stress. Banks are required to maintain an LCR of at least 100%.

Run-off Rate

A run-off rate is the percentage of deposits that RBI expects may be withdrawn during a period of financial stress. Banks use these rates while calculating their LCR. A higher run-off rate means the deposit is considered less stable. A lower run-off rate indicates a more stable source of funding.

NRE Account (Non-Resident External Account)

An NRE Account is a bank account opened by a NRI to deposit income earned outside India in Indian Rupees. It is Maintained in Indian Rupees. Both principal and interest are fully repatriable. Interest earned is tax-free in India.

NRO Account (Non-Resident Ordinary Account)

An NRO Account is a bank account maintained by an NRI to manage income

Key Changes Across Other Regulated Entities

The amendments apply similarly across other financial institutions, with adjustments tailored to their regulatory structures:

Small Finance Banks (SFBs):

- Adopted identical rules as Commercial Banks.
- Includes the 10:00 AM – 10:10 AM daily website disclosure rule for bulk deposits, branch-wide non-discrimination, and freedom to link differential bulk deposit rates to LCR run-off rates (for both Domestic and Non-Resident Rupee deposits).

Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs), & Local Area Banks (LABs):

- Adopted Disclosure & Non-Discrimination Provisions: Required to strictly publish bulk deposit rates on their websites between 10:00 AM and 10:10 AM every business day and adhere to non-discriminatory, uniform pricing across all branches.
- LCR run-off linked pricing flexibility is not applicable to these entities.

Payments Banks (PBs):

- Limited Amendment: Must strictly adhere to interest rates disclosed in advance on their website.
- As Payments Banks do not handle bulk deposits or non-resident deposits in the same manner, the daily 10:10 AM window and LCR pricing flexibility provisions do not apply.

Entity	Daily Bulk Deposit Disclosure (10:00–10:10 AM)	Uniform & Non-Discriminatory Pricing	LCR-Based Differential Pricing
Commercial Banks	Applicable	Applicable	Applicable (Domestic & NRE/NRO Bulk Deposits)
Small Finance Banks (SFBs)	Applicable	Applicable	Applicable (Domestic & NRE/NRO Bulk Deposits)
Urban Co-operative Banks (UCBs)	Applicable	Applicable	Not Applicable

Regional Rural Banks (RRBs)	Applicable	Applicable	Not Applicable
Local Area Banks (LABs)	Applicable	Applicable	Not Applicable
Payments Banks (PBs)	Not Applicable (Only general website disclosure of deposit rates is required)	Applicable (Must follow the rates disclosed on the website)	Not Applicable

Q.1) To ensure fairness, RBI has mandated that customers with similar deposits accepted on the same day should not receive different interest rates merely because of the branch or customer relationship.

Consider the following statements:

1. Banks must maintain uniform deposit interest rates across all branches.
2. Banks cannot discriminate between similar deposits accepted on the same date.
3. Banks are free to negotiate different interest rates with similar depositors at different branches.

Choose the correct answer:

[a] 1 only
[b] 2 and 3 only
[c] 1 and 2 only
[d] 1 and 3 only
[e] 1, 2 and 3

Correct Answer: [c] 1 and 2 only

Solution: RBI has mandated uniform and non-discriminatory pricing. Similar deposits accepted on the same day should receive the same interest rate, irrespective of the branch. Arbitrary negotiation for similar deposits is not permitted.

Q.2) The Liquidity Coverage Ratio (LCR) requires banks to maintain sufficient High quality Liquid Assets (HQLA) to meet expected net cash outflows during a 30-day stress period. Under the amendment, certain banks can price bulk deposits based on LCR run-off rates.

Consider the following statements:

1. A higher run-off rate indicates that a deposit is expected to be less stable during a stress period.

2. Commercial Banks can offer differential interest rates on bulk deposits based on LCR run-off rates.
3. Urban Co-operative Banks are also permitted to offer LCR run-off linked differential pricing.

Choose the correct answer:

[a] 1 only
[b] 2 and 3 only
[c] 1 and 2 only
[d] 1 and 3 only
[e] 1, 2 and 3

Correct Answer: [c] 1 and 2 only

Solution: A higher run-off rate means higher expected withdrawals during stress, making the deposit less stable. Commercial Banks (and SFBs) may offer LCR-linked differential pricing, whereas UCBs are not allowed to do so.

RBI's Basel Pillar 3 Disclosure Framework for Banks (July 30, 2026) – Part 1

On **30 July 2026**, the Reserve Bank of India (RBI) issued **ten Amendment Directions** to revise the regulatory disclosure framework applicable to **Commercial Banks, Small Finance Banks (SFBs), and Payments Banks**. Although issued through different amendment directions, all of them implement a **single regulatory reform**—adoption of a revised **Basel III Pillar 3 Disclosure Framework**. The objective is to strengthen **market discipline, improve transparency and comparability of disclosures, reduce duplication in reporting, and align India's banking disclosure standards with the latest Basel Committee framework.** The revised framework will come into effect from **1 April 2027**.

Need for revised framework

The existing disclosure framework was based on older Basel standards and contained multiple disclosure requirements scattered across different RBI directions such as:

- Prudential Norms on Capital Adequacy
- Asset Liability Management (ALM)
- Governance Directions

- Financial Statements: Presentation and Disclosures

This resulted in duplication of disclosures, inconsistent reporting formats, limited comparability across banks, and differences from the latest Basel Committee standards.

To address these issues, RBI introduced a single, harmonised Pillar 3 disclosure framework by amending all related directions simultaneously.

Key concept

Basel Framework (Basel Accords)

The Basel Framework is a set of internationally accepted banking regulations issued by the Basel Committee on Banking Supervision (BCBS), headquartered at the Bank for International Settlements (BIS), Basel, Switzerland. It aims to strengthen the safety, stability and resilience of the global banking system by prescribing common standards for capital adequacy, risk management, supervision and market discipline.

The Basel Framework has evolved through three major accords:

Basel I (1988): Introduced the concept of the Capital Adequacy Ratio (CAR) and required banks to maintain a minimum capital equal to 8% of Risk-Weighted Assets (RWAs), primarily to address credit risk.

Basel II (2004): Expanded the framework by introducing the Three Pillars—Pillar 1 (Minimum Capital Requirements), Pillar 2 (Supervisory Review Process), and Pillar 3 (Market Discipline through Disclosures). It also included capital requirements for operational and market risks.

Basel III (2010): Introduced after the Global Financial Crisis (2008) to improve banks' ability to absorb financial shocks. It strengthened the quality and quantity of capital, introduced Capital Conservation Buffer (CCB), Countercyclical Capital Buffer (CCyB), Leverage Ratio, and global liquidity standards such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

In India, the **Reserve Bank of India (RBI)** implements the Basel Framework through prudential regulations, adapting global standards to suit the Indian banking system.

Objectives of the revised framework

The revised framework aims to:

- Improve transparency in banking disclosures and enhance market discipline.
- Align Indian banking disclosures with international Basel standards.
- Ensure consistency and comparability across banks.
- Improve the quality and usefulness of disclosures for investors and depositors.
- Eliminate duplication of reporting across multiple RBI directions.
- Strengthen Board-level accountability for regulatory disclosures.

Applicability

The revised framework applies through separate amendment directions to Commercial Banks, Small Finance Banks, and Payments Banks

Effective Date

The amendments will come into force from **1 April 2027**.

The first disclosures will begin as follows:

- **Quarterly disclosures:** Quarter ending **30 June 2027**
- **Half-yearly disclosures:** Half-year ending **30 September 2027**
- **Annual disclosures:** Financial year ending **31 March 2028**

Key Amendments / Implications

Commercial Banks

Introduction of a Completely Revised Basel Pillar 3 Disclosure Framework

The RBI has replaced the earlier disclosure framework with a **comprehensive Basel-aligned Pillar 3 framework**. The revised framework standardises both the **content** and **format** of disclosures, ensuring that banks provide consistent, comparable and meaningful information about their capital position, risk exposures and liquidity profile.

Unlike the previous framework, which relied on older disclosure tables, the revised framework adopts internationally accepted Basel disclosure templates and reporting standards.

this will lead to Uniform disclosures across banks, easier comparison between Indian and global banks, improved confidence of investors and depositors and stronger market discipline.

Pillar 3 Applicable to All Commercial Banks

The RBI has clarified that the revised Pillar 3 disclosure requirements are applicable to all commercial banks, irrespective of whether they are listed on stock exchanges or publish financial statements for capital market purposes.

Therefore, the disclosure framework is no longer limited to listed banks.

This ensures that every commercial bank maintains the same level of transparency before the public.

This will lead to uniform regulatory disclosures across the banking sector and greater transparency for depositors of unlisted banks.

Strengthened Governance and Board Oversight of Disclosures

One of the most significant reforms is the strengthening of governance over regulatory disclosures.

Every commercial bank must now:

- Adopt a Board-approved Pillar 3 Disclosure Policy.
- Establish robust internal controls for preparing disclosures.
- Subject Pillar 3 information to the same level of review as financial statements.
- Ensure that the Board of Directors and senior management are responsible for maintaining the accuracy and quality of disclosures.
- Obtain a written certification from one or more Board-level senior officers confirming that the disclosures have been prepared in accordance with the approved internal control framework.

Protection of Confidential and Proprietary Information

While encouraging greater transparency, RBI has recognised that certain disclosures may reveal commercially sensitive information.

Accordingly, in exceptional circumstances, banks may withhold specific confidential or proprietary information if disclosure could harm their competitive position, or violate legal obligations.

However, the bank must disclose the broad nature of the information, explain why detailed disclosure has not been made, and ensure that non-disclosure is limited only to genuinely confidential matters.

The framework balances two objectives promoting transparency, and protecting legitimate commercial interests.

Five Guiding Principles for Pillar 3 Disclosures

The revised framework introduces five guiding principles that every Pillar 3 disclosure must follow.

- **Clarity:** Information should be presented in simple, understandable language. Important messages should be prominently highlighted, and technical terms should be clearly explained wherever necessary.
- **Comprehensiveness:** Banks must disclose all significant risks and provide both qualitative and quantitative information regarding their risk management practice
- **Meaningfulness:** Disclosures should focus only on information that is useful to stakeholders in understanding the bank's current and emerging risk profile. Irrelevant or outdated information should be avoided.
- **Consistency:** Banks should maintain consistency in disclosures over time so that users can identify trends and compare changes across reporting periods.
- **Comparability:** Disclosures should follow a standardised format that enables meaningful comparison across banks and jurisdictions.

These principles significantly improve the usefulness of Pillar 3 disclosures for regulators, investors, analysts, credit rating agencies and depositors.

Standardised Frequency and Timelines for Pillar 3 Disclosures

To ensure timely availability of information, RBI has prescribed **standard disclosure frequencies** based on the nature of information disclosed.

Different disclosure templates will now be published on: **Quarterly basis**, **half-yearly basis** and **annual basis**

Further, RBI has prescribed a phased implementation timeline:

- **Up to the reporting period ending 31 March 2029:** Banks may publish Pillar 3 disclosures within seven working days after publishing their financial statements.
- **From FY 2029-30 onwards:** Pillar 3 disclosures must be released simultaneously with financial statements, ensuring real-time transparency.

Type	Frequency
Key prudential metrics	Quarterly
Certain disclosure templates	Half-yearly
Comprehensive disclosures	Annually

Mandatory 'Regulatory Disclosure Section' on Bank Websites

To improve accessibility and transparency, every commercial bank must create a dedicated Regulatory Disclosure Section on its official website.

The section must:

- Contain all Pillar 3 disclosures.
- Be easily accessible through a prominent link on the homepage.
- Maintain an archive of disclosures for at least five years.
- Present disclosures in a standalone and user-friendly manner.

Introduction of New Basel III Disclosure Templates

One of the most important reforms is the replacement of the earlier disclosure tables with internationally standardised Basel templates.

The revised framework introduces disclosure templates relating to: key prudential metrics (km1, risk management approach (ova), overview of risk-weighted assets (ov1), capital composition, credit risk, leverage ratio, liquidity coverage ratio (lcr), net stable funding ratio (nsfr), other basel-prescribed disclosure formats.

The new templates ensure uniform reporting, better comparability, and improved quality of disclosures.

Enhanced Qualitative (Narrative) Disclosures

The revised framework emphasises that disclosures should not merely contain numbers but also explain the reasons behind significant changes.

Banks are required to provide narrative explanations covering significant changes from previous reporting periods, major risk drivers, management's response to changing risks, and additional information necessary for stakeholders to understand the bank's risk profile.

Banks are also encouraged to provide voluntary disclosures wherever they improve stakeholders' understanding of the bank's business model and risk profile.

Leverage Ratio Disclosure Strengthened

The revised framework strengthens the disclosure requirements relating to the Basel III Leverage Ratio. Commercial banks must now publicly disclose the Basel III leverage ratio every quarter, report detailed leverage ratio calculations to RBI, and publish disclosures using the prescribed Basel templates (LR1 and LR2).

Shift of LCR and NSFR Disclosures

The amendment does not change the calculation or regulatory requirements relating to Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

Instead, RBI has shifted their disclosure requirements from the Asset Liability Management (ALM) Directions and Financial Statements Directions to the revised Basel Pillar 3 disclosure framework.

Shift of Remuneration Disclosures

Earlier, disclosures relating to remuneration were contained in the Financial Statements and Governance Directions.

Under the revised framework remuneration disclosures have been removed from the Financial Statements Directions and relevant disclosures are now integrated with the revised governance and Pillar 3 disclosure framework, ensuring consistency in reporting.

Small Finance Banks (SFBs)

The RBI has broadly aligned the disclosure framework for Small Finance Banks with that of commercial banks, while making suitable modifications to reflect the unique business model and regulatory requirements of SFBs.

Major Changes

Simplified Applicability

Certain disclosure requirements are not applicable to SFBs because of their regulatory framework.

For example:

- SFBs cannot establish subsidiaries under the licensing guidelines.
- Capital charges relating to market risk and operational risk are generally not applicable.
- Some disclosures relating to D-SIBs/G-SIBs and capital buffers are therefore not required.

Alignment of ALM Directions

The ALM Directions have been amended so that LCR and NSFR disclosures now refer to the revised Pillar 3 framework instead of separate ALM disclosure formats.

Alignment of Governance Directions

The Governance Directions have been amended to align share-linked instruments and remuneration disclosures with the revised Pillar 3 disclosure framework.

Alignment of Financial Statement Directions

Disclosure requirements relating to Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR),and remuneration, have been deleted from the Financial Statements Directions because these are now covered under the revised Pillar 3 framework.

Payments Banks

Unlike Commercial Banks and SFBs, Payments Banks are **not subject to the Basel capital adequacy framework**. Therefore, RBI has made only limited amendments.

Governance Directions

Governance Directions have been amended so that remuneration-related disclosures are aligned with the revised disclosure framework.

Financial Statement Directions

The requirement relating to **remuneration disclosures** has been removed from the Financial Statements Directions, as it will now be governed under the revised disclosure framework.

No Basel Pillar 3 Capital Adequacy Framework

Since Payments Banks are subject to a different regulatory model, the comprehensive Basel III Pillar 3 capital adequacy disclosure framework applicable to Commercial Banks and SFBs has not been extended to them.

Aspect	Commercial Banks	Small Finance Banks	Payments Banks
Revised Pillar 3 Framework	Fully applicable	Applicable with suitable modifications	Not fully applicable
New Basel Templates	Yes	Yes (subject to applicability)	No
Board-approved Disclosure Policy	Yes	Yes	Only relevant governance changes
Regulatory Disclosure Section	Yes	Yes	Not prescribed under Pillar 3
LCR & NSFR Disclosure Shift	Yes	Yes	Not applicable
Remuneration Disclosure Shift	Yes	Yes	Yes
Market Risk & Operational Risk Templates	Applicable	Generally not applicable	Not applicable

Significance of the Reforms

Strengthens Market Discipline

The revised framework empowers depositors, investors, analysts, credit rating agencies and other market participants with comprehensive and timely information regarding a bank's capital adequacy, liquidity, leverage and risk profile. Better-informed stakeholders can make more informed decisions, thereby encouraging banks to maintain prudent risk-taking behaviour. Thus, market discipline acts as an additional layer of oversight alongside RBI's supervision.

Enhances Transparency in the Banking System

By introducing standardised disclosure templates, detailed qualitative explanations and a dedicated Regulatory Disclosure Section on bank websites, RBI has significantly improved the transparency of banking operations. Stakeholders can now obtain a clearer understanding of a bank's financial position, risk exposures and risk management practices, thereby strengthening public confidence in the banking system.

Improves Comparability Across Banks

The adoption of internationally standardised Basel disclosure templates ensures that all banks present information in a uniform format. This enables investors, regulators and analysts to compare the financial strength, capital adequacy, liquidity position and risk profile of different banks more accurately, both within India and internationally.

Aligns India's Banking Regulations with Global Basel Standards

The revised disclosure framework closely follows the latest Basel Committee on Banking Supervision (BCBS) standards. This harmonisation brings India's regulatory framework in line with global best practices, enhances the credibility of Indian banks in international financial markets and facilitates cross-border comparison of banking institutions.

Strengthens Corporate Governance and Board Accountability

RBI has made the Board of Directors and senior management directly responsible for the quality and reliability of Pillar 3 disclosures. Banks are now required to have a Board-approved disclosure policy, robust internal controls and written certification from senior officials. This elevates regulatory disclosures from a compliance requirement to an important element of corporate governance and accountability.

Reduces Duplication and Simplifies Regulatory Reporting

Earlier, disclosures relating to Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and remuneration were scattered across multiple RBI directions. The revised framework consolidates these disclosures under the Pillar 3 framework, reducing duplication, improving consistency and simplifying compliance for banks.

Improves Accessibility of Regulatory Information

By mandating every bank to maintain a dedicated Regulatory Disclosure Section on its website along with a five-year archive of disclosures, RBI has made regulatory information more accessible to stakeholders. This facilitates easier retrieval of current and historical disclosures, thereby improving transparency and long-term analysis.

Encourages Better Risk Communication

The revised framework places greater emphasis on qualitative narrative disclosures in addition to quantitative data. Banks are required to explain significant changes in risk exposures, emerging risks and management responses. This enables stakeholders to understand not only the numerical indicators but also the underlying reasons and context behind them.

Improves Supervisory Efficiency

Standardised reporting formats and harmonised disclosure requirements enable RBI to compare banks more efficiently and identify emerging risks across the banking sector. Better quality and more consistent disclosures also support more effective supervisory review and policy formulation.

Increases Confidence in the Banking System

Greater transparency, stronger governance standards and improved quality of public disclosures enhance the confidence of depositors, investors and financial markets in the stability and soundness of the banking system. Over time, this contributes to maintaining financial stability and strengthening trust in the Indian banking sector.

Q.1) Consider the following statements regarding the RBI's revised Basel Pillar 3 Disclosure Framework (2026):

1. The revised framework seeks to strengthen market discipline by improving transparency and public disclosures.
2. The revised Pillar 3 framework is applicable only to listed commercial banks.
3. The framework aligns India's disclosure standards with the latest Basel Committee recommendations.

Which of the statements given above is/are correct?

[a] 1 and 2 only

[b] 1 and 3 only

[c] 2 and 3 only

[d] 1 only

[e] 1, 2 and 3

Answer: [b] 1 and 3 only

Solution

Statement 1 is correct. The primary objective of the revised Pillar 3 framework is to strengthen market discipline through enhanced transparency and disclosures.

Statement 2 is incorrect. The framework applies to all commercial banks, including unlisted banks, and corresponding amendments have also been issued for Small Finance Banks.

Statement 3 is correct. RBI revised the framework to align Indian banking disclosures with the latest Basel Committee on Banking Supervision (BCBS) standards.

Q.2) Consider the following statements regarding Basel III Pillar 3:

1. Pillar 3 complements Pillar 1 and Pillar 2 by promoting market discipline through regulatory disclosures.
2. Pillar 3 prescribes the minimum capital adequacy ratio that banks must maintain.
3. Pillar 3 disclosures enable investors and depositors to assess the risk profile of banks.

Which of the statements given above is/are correct?

[a] 1 and 3 only

[b] 2 only

[c] 1 and 2 only

[d] 2 and 3 only

[e] 1, 2 and 3

Answer: [a] 1 and 3 only

Solution

Statement 1 is correct. Pillar 3 promotes market discipline through public disclosures. Statement 2 is incorrect. Minimum capital requirements are prescribed under Pillar 1, while Pillar 3 deals only with disclosure requirements. Statement 3 is correct. The disclosures help stakeholders evaluate a bank's capital adequacy, liquidity, leverage and risk management practice