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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) Regulations; (ii) Foreign Exchange Management; (iii) Consumer Protection and (iv) Financial Markets.

I. Regulations

1. Expected Credit Loss (ECL) framework for provisioning

With a view to strengthen the resilience of the banking sector, it is proposed to issue the draft Reserve Bank (Asset Classification, Provisioning and Income Recognition) Directions, 2025 for Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks and Regional Rural Banks) and All India Financial Institutions. The draft directions inter alia, propose to replace the extant framework based on incurred loss with an Expected Credit Loss (ECL) approach, subject to a prudential floor, while retaining the existing asset classification norms. The guidelines are expected to enhance credit risk management practices, promote better comparability of reported financials across institutions. The framework is designed to be implemented in a non-disruptive manner with a suitable glide-path.

2. Basel III Guidelines on Capital Charge for Credit Risk – Standardised Approach

As a part of the broader objective of improving the resilience of the banking sector and aligning the regulatory framework with the best international practices, it is proposed to issue the draft guidelines on implementation of the revised Basel framework on Standardised Approach for Credit Risk for Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks, and Regional Rural Banks).The revised framework aims to improve the robustness, granularity and risk sensitivity of the standardized approach for calculating the capital charge for credit risk. The draft guidelines shall be issued shortly.

3. Forms of Business and Prudential Regulation for Investments

The draft guidelines on forms of business and investment for banks which was issued in October 2024 has been finalised and shall be issued shortly. Based on feedback and review, the proposed bar on overlap in the businesses undertaken by a bank and its group entity is being removed. The circular envisages to streamline the activities being undertaken by banks and their group entities while providing more operational freedom to the banks and NOFHCs for equity investments and setting up group entities respectively.

4. Introduction of Risk Based Premium Framework for Deposit Insurance in India

Deposit Insurance and Credit Guarantee Corporation (DICGC), under the DICGC Act, 1961 has been operating the deposit insurance scheme since 1962 on a flat rate premium basis. At present, the banks are charged a premium of 12 paise per ₹100 of assessable deposits. While the existing system is simple to understand and administer, it does not differentiate between banks based on their soundness. It is, therefore, proposed to introduce a Risk Based Premium model which will help banks that are more sound to save significantly on the premium paid. Detailed notification will be issued shortly, which will be effective from the next financial year.

5. Review of Capital Market Exposures Guidelines for banks

Capital market exposures (CME) of the regulated entities (REs) which include, inter alia, lending against securities to individuals and lending to capital market intermediaries, have been subject to prudential regulations relating to sectoral exposure limits, single borrower limits, margin requirements, etc. Further, bank finance for acquisition of shares has been generally disallowed.

There has been significant growth and development in the capital market structure, along with strengthening of the banking system in recent years. With the objective of rationalising the extant guidelines and broadening the scope for capital market lending by banks and other regulated entities, it is proposed to inter alia:

- provide an enabling framework for banks to finance acquisitions by Indian corporates;
- enhance the limit for lending by banks against shares, units of REITs, units of InvITs while removing the regulatory ceiling altogether on lending against listed debt securities; and
- put in place a more principle-based framework for lending to capital market intermediaries.

The draft guidelines shall be issued shortly.

6. Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism – Withdrawal

The Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism were introduced in August 2016 with an objective to address the concentration risk arising from the aggregate credit exposure of the banking system to a single large corporate and encourage such large corporates to diversify their sources of funding. Upon review, considering, inter-alia, the changes evident in the profile of bank funding to corporate sector since the introduction of the Guidelines, it is proposed to withdraw the guidelines. While the Large Exposures Framework since put in place for banks addresses concentration risk at an individual bank-level, concentration risk at the banking system level, as and when considered as a risk, will be managed through specific macroprudential tools. The draft circular to withdraw these guidelines shall be issued shortly for public comments.

7. Risk Weights on infrastructure lending by NBFCs

Infrastructure projects that have commenced operations typically exhibit lower risk compared to those under construction. Recognizing this risk differential, the existing capital adequacy norms permit NBFCs to assign a lower risk weight to operational projects under Public-Private Partnerships (PPPs). With a view to further rationalise the risk weights for infrastructure lending by NBFCs in line with the nuanced risk-profile of operational projects, it has been decided to introduce a principle-based framework. The framework aims to align risk weights with the actual risk characteristics of operational infrastructure projects, promoting better risk assessment and capital allocation. Draft regulations in this regard shall be issued shortly for public consultation.

8. Discussion Paper on Licensing Framework for new Urban Co-operative Banks (UCBs)

Since 2004, issuance of fresh license for UCBs had been paused following weak financial health of the UCB Sector. Considering that more than two decades have passed since then and the positive developments in the sector, a discussion paper on licensing of new Urban Co-operative Banks (UCBs) will be issued shortly.

9. Consolidation of Regulatory Instructions

The evolution of regulatory framework administered by the Reserve Bank has resulted in proliferation of several circulars and directions. In order to provide ease of access and reduce the compliance cost faced by the regulated entities, the Reserve Bank has undertaken an exercise of consolidating the regulatory instructions administered by the Department of Regulation of the Reserve Bank into a set of Master Directions on an ‘as is’ basis The drafts of about 250 Master Directions consolidating extant instructions on up to 30 areas for 11 types of regulated entities shall be placed on the website shortly for comments on their completeness and accuracy.

10. Review of Restrictions on Transaction Accounts

With the objective of enforcing credit discipline among borrowers as well as to facilitate better monitoring by lenders, certain restrictions were placed on the operation of Current Accounts (CA), Cash Credit Accounts (CC) and Overdraft Accounts (OD) (“Transaction Accounts”) offered by banks vide various circulars issued from time to time. Based on the experience gained and feedback received, these instructions have been reviewed and it is proposed to ease some of the stipulations and provide greater flexibility to the banks in this regard, particularly in case of borrowers being entities regulated by a financial sector regulator. The draft guidelines shall be issued shortly.

II. Foreign Exchange Management

11. Foreign Currency accounts by Indian exporters- extension of time period for repatriation from accounts held in IFSC in India

In January 2025, RBI had permitted Indian exporters to open foreign currency accounts with a bank outside India for realisation of export proceeds. Funds in these accounts can be used for making import payment or have to be repatriated by the end of next month from the date of receipt of the funds. It has now been decided to extend the time period for repatriation, from one month to three months, in case of such foreign currency accounts maintained in IFSC in India. This will encourage Indian exporters to open accounts with IFSC Banking Units and also increase forex liquidity in IFSC. The amendments to regulations will be notified shortly.

12. Merchanting Trade Transactions (MTT)

Global uncertainties in trade are resulting in supply chain disruptions, making it challenging for Indian merchants to meet their contractual obligations in time. In terms of extant guidelines on MTT, outlay of foreign exchange is allowed upto four months. It has now been decided to increase the period for the forex outlay from four months to six months, in case of MTT. This relaxation is expected to help Indian merchants overcome the challenges they face in completing their business transactions efficiently while maintaining profitability. The amendments to regulations will be notified shortly.

13. Relaxation in compliance requirements for Small Value Exporters/Importers

With a view to ease compliance for exporters/importers, especially of small value goods and services, it has been decided to simplify the process of reconciliation in Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS).

As per the revised guidelines, bills can be reconciled and closed by an AD bank in EDPMS or IDPMS, based on a declaration by the concerned exporter or importer, as the case may be, that the amount has been realised, for a shipping bill, or paid against a Bill of Entry, for entries (including outstanding entries) in EDPMS/IDPMS of value equivalent to INR 10 lakh per bill, or less.

The revised procedure will also enable reduction in the realisable value of bills by AD banks based on such declaration. This measure is expected to reduce compliance burden on small value exporters and importers and enhance ease of doing business. The directions will be issued shortly.

14. Review of External Commercial Borrowing Framework

With an objective to rationalise and simplify the regulations governing External Commercial Borrowings (ECB), the Reserve Bank of India has undertaken a review of the existing provisions under the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018.

Based on the review, a revised framework that provides for expansion of eligible borrower and recognized lender base, rationalization of borrowing limits, rationalization of restrictions on average maturity period, removal of restrictions on the cost of borrowing for ECBs, review of end-use restrictions and simplification of reporting requirements, is proposed to be introduced. The draft Framework will be issued shortly.

15. Rationalisation of regulations for Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other place of business

The extant regulations for "Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other place of business" were issued by the Reserve Bank in 2016. The regulations have been comprehensively reviewed. The revised regulations are principle driven and enable delegation of more powers to AD banks and reduction of compliance burden, thereby further enhancing the ease of doing business in India. The draft regulations will be issued shortly.

16. Review of instructions on Basic Savings Bank Deposit (BSBD) Account

BSBD Account is a savings bank account which was introduced with the objective of promoting financial inclusion. The extant instructions on BSBD account require banks to provide certain minimum facilities free of charge, without the requirement of minimum balance, to the holders of such accounts. The ongoing digitalization in the banking sector necessitates a BSBD account that is in sync with the customer's changing requirements. Therefore, it has been decided to review the extant instructions on BSBD account to provide affordable banking facilities to the public and drive enhanced usage of BSBD accounts to deepen financial inclusion.

III. Consumer Protection

17. Measures for strengthening the Internal Ombudsman mechanism in REs

The Reserve Bank has institutionalized the Internal Ombudsman (IO) mechanism in select Regulated Entities (REs) which enables an independent apex level review of complaints that are being rejected by the RE. To further improve upon the efficacy of this mechanism, it is proposed that the IOs be equipped with compensation powers and be allowed access to the complainant, aligning the role of IOs more closely with that of the RBI Ombudsman. Additionally, a two-tiered structure may be introduced within REs for grievance redress prior to escalation to the IO. These measures aim to provide meaningful and timely resolution of customer grievances within the REs, thereby improving service standards and consumer confidence. A draft of the Master Direction, outlining these revisions, is being released shortly for public feedback.

18. Review of the Reserve Bank – Integrated Ombudsman Scheme, 2021

The Reserve Bank – Integrated Ombudsman Scheme (RB-IOS) (the Scheme), 2021 launched on November 12, 2021, provides customers of Regulated Entities (REs) a speedy, cost-effective and expeditious alternate grievance redress mechanism. The REs currently covered under the Scheme include Commercial Banks, Regional Rural Banks, Scheduled Primary (Urban) Co-operative Banks, Non-

Scheduled Primary (Urban) Co-operative Banks with deposits size of ₹50 crore and above, select Non-Banking Financial Companies and Credit Information Companies.

To enable the customers of the rural co-operative banks to access the mechanism of RBI Ombudsman, it has been decided to bring State Co-operative Banks and District Central Cooperative Banks, hitherto with NABARD, within the scope of the RBI Ombudsman Scheme. Notification will be issued shortly in this regard.

Moreover, based on the operational experience, stakeholder feedback, and global best practices, the Reserve Bank has undertaken a comprehensive review of the Scheme. The review seeks to enhance clarity, simplify procedures and reduce timelines to further improve timely, fair, and effective redress. The draft Scheme shall be placed on the Reserve Bank's website shortly for seeking feedback from stakeholders.

IV. Financial Markets

19. Lending in Indian Rupees (INR) by Authorised Dealer (AD) banks to Persons Resident Outside India

In order to promote the settlement of cross border transactions in INR and local currencies, the Reserve Bank of India has been progressively liberalising regulations under the Foreign Exchange Management Act. To take this initiative further, it is essential that INR liquidity is made available and accessible to residents of other countries. As a calibrated step in this direction, it has been decided that AD banks in India and their overseas branches may be permitted to lend in INR to persons resident in Bhutan, Nepal, and Sri Lanka, including a bank in these jurisdictions, to facilitate cross border trade transactions. The amendments to regulations will be notified shortly.

20. Additional Reference Rates to be published by Financial Benchmarks India Limited

Over the years, the development of forex market has facilitated the growing integration of the Indian economy with the rest of the world in terms of trade and capital flows. At present, Financial Benchmarks India Limited (FBIL) publishes reference rates for USD, EUR, GBP and JPY against INR. These rates are widely used for settlement of forex transactions including derivatives. It is now proposed to include select currencies of India's major trading partners in the list of reference rates published by FBIL. This is expected to further deepen the onshore forex market and encourage banks to quote directly in a larger set of currency pairs, thus eliminating the need for multiple currency conversions and making trade more efficient. FBIL has been advised to publish the new reference rates in consultation with the market.

21. Expanding the bouquet of investments for Special Rupee Vostro Accounts (SRVA) holders

To promote exports from India and to support increasing interest of global trading community in INR, RBI had permitted Special Rupee Vostro Accounts (SRVA) in July 2022 to facilitate invoicing, payment, and settlement of exports / imports in INR. The arrangement permitted, *inter alia*, Rupee surplus balances in SRVA to be invested in government securities including treasury bills. To expand investment opportunities in India for SRVA holders, it has now been decided to permit balances of these accounts to be invested in corporate bonds and commercial papers. The revised regulations will be notified shortly.

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