



RPV Legal

Advocates since 1934

Banking Updates

July-September 2025 || *Quarterly Newsletter*

JULY

The Reserve Bank of India (RBI) allows voluntary gold and silver pledges as collateral for agriculture and MSME Loans without losing collateral-free status

The RBI through a notification dated July 11, 2025, has issued a clarification easing collateral rules for Agriculture and MSME loans by allowing borrowers to voluntarily pledge gold or silver as collateral without the loan being disqualified from the collateral-free loan category. This means banks can accept gold or silver pledged voluntarily by borrowers for loans within the prescribed collateral-free limit, maintaining the loans' classification under priority sector collateral-free lending. The key points of the clarification include that the pledge must be at the borrower's discretion and cannot be mandated by banks, thereby easing formal credit access for small farmers and micro-entrepreneurs. This move promotes financial inclusion by balancing borrower flexibility and regulatory compliance, applying across scheduled commercial banks, regional rural banks, small finance banks, and cooperative banks.

The RBI issues new guidelines on Pre-Payment Charges for Loans

The RBI has introduced the Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025 on July 2, 2025, effective from January 1, 2026. These Directions establish a uniform regulatory framework for the levy of pre-payment charges by banks and regulated entities on loans, aimed at protecting borrowers, particularly individuals and Micro and Small Enterprises (MSEs), from unfair lending practices. The Directions prohibit the imposition of pre-payment charges on floating-rate loans taken by individuals for non-business purposes, irrespective of the source of repayment or involvement of co-obligates. For business loans at floating interest rates, pre-payment charges are also prohibited for loans up to INR 50 lakhs granted by certain categories of banks and NBFCs, subject to specific tiered restrictions based on the lender type. Additionally, these Directions require that any pre-payment charges be transparently disclosed upfront in sanction letters, loan agreements, and Key Fact Statements, while banning any retrospective levies.

The RBI injects Rs. 5.6 Trillion Liquidity; CRR Cut Eases Funding Costs

The RBI has conducted large-scale liquidity operations under its Liquidity Adjustment Facility, injecting Rs. 5.6 trillion into the banking system and concurrently cutting the Cash Reserve Ratio by 100 basis points to ease funding pressures on banks and non-bank financial companies. These measures released roughly ₹1 trillion of additional lendable resources, drove call money and repo rates down by over 50 basis points within days, and reduced reliance on expensive market borrowings. Credit-rating agency Fitch projected a moderate dip in net interest margins for FY 2026, with a recovery in FY 2027 as deposit growth stabilises and credit offtake strengthens, while loan growth is forecast at 11 per cent for FY 2026. These interventions underscore the RBI's commitment to maintaining adequate system liquidity, supporting credit flows, and managing deposit pressures amid moderating retail deposit rates and intensified competition for funds.

NSDL Payment Bank joins RBI's List of Scheduled Banks

The RBI has officially added NSDL Payments Bank Limited to its Second Schedule under the RBI Act, 1934, on 21st July, 2025, elevating the institution to scheduled-bank status. This recognition grants NSDL Payments Bank access to central bank liquidity windows—such as Repo and Liquidity Adjustment Facility operations—enables it to settle interbank transactions seamlessly, and allows it to maintain mandated statutory reserves with the RBI. NSDL Payments Bank, an arm of the National Securities Depository Limited, specialises in digital payment solutions, including mobile banking, prepaid instruments, and interoperable UPI wallets, leveraging NSDL's robust technology platform to facilitate secure, real-time fund transfers for millions of retail and corporate customers. Scheduled-bank status not only reduces the bank's funding costs and enhances its operational stability but also bolsters customer confidence by affirming its adherence to RBI's prudential norms and supervision.

The RBI caps Investment by a Bank/RE in an AIF Scheme at 10%

The RBI, vide its Notification dated 29th July 2025, has issued RBI (Investment in AIF) Directions, 2025. The Directions cap the investment by an Individual Bank or a Regulated entity (RE) in any Alternative Investment Fund (AIF) scheme to 10 per cent of the total AIF corpus. Additionally, the collective investment by all Regulated Entities, which include Banks, NBFCs, and All-India Financial Institutions, in any AIF scheme cannot exceed 20% of the corpus of that scheme. These regulatory directions, effective from January 1, 2026, aim to prevent concentration risk and reduce systemic exposure of banks and similar entities to AIFs. Furthermore, if a regulated entity contributes more than 5 per cent of the corpus of an AIF scheme that also has downstream investments in debtor companies of that entity, the regulated entity must make 100 per cent provisioning against its proportionate investment in the debtor company through the AIF, subject to the limit of its direct exposure.

AUGUST

The RBI unveils Unified Co-Lending Rules 2025

The RBI has introduced the RBI (Co-Lending Arrangements) Directions, 2025, which will come into effect on January 1, 2026. This new, unified regulatory framework replaces the previous circular issued on November 5, 2020, to govern co-lending partnerships between banks and Non-Banking Financial Companies (NBFCs). The updated guidelines aim to enhance transparency and risk management. A key provision mandates that each participating financial institution must retain a minimum of 10% of every individual loan, ensuring a shared financial stake. Furthermore, the new directions include stronger borrower protection measures, such as requiring a blended interest rate and the issuance of a Key Facts Statement (KFS) that clearly discloses all fees. By formalizing these partnerships, the RBI seeks to promote responsible collaboration and ensure a stable and secure lending environment.

Boosting Cooperatives: Union Cabinet Approves Rs. 2000 Crore Grant for National Cooperative Development Corporation (NCDC)

In a move set to bolster the cooperative sector, the Union Cabinet, chaired by Prime Minister Narendra Modi, has approved a new Central Sector Scheme “grant in aid to national cooperative development”, allocating an outlay of Rs. 2000 crore over four years, from 2025-26 to 2028-29. This significant grant to the National Cooperative Development Corporation (NCDC) will enable the organization to raise an additional Rs. 20,000 crores from the open market. These funds are for providing loans to cooperatives across various sectors, including Dairy, Livestock, Fisheries, and Food Processing, to support new projects, expand existing plants, and manage working capital. The initiative is expected to benefit nearly 2.9 crore members from over 13,000 cooperative societies, with a special focus on those led by women and laborers. By creating income-generating assets and providing crucial liquidity, the scheme aims to generate widespread employment opportunities and improve the economic well-being of farmer members, ultimately bridging socio-economic gaps.

RBI Opens Vostro Route for Foreign Investment in Government Securities

The RBI on August 12, 2025, issued a notification allowing persons resident outside India who maintain Special Rupee Vostro Accounts (SRVAs) for international trade settlements in Indian Rupees to invest their surplus rupee balances in Central Government Securities, including Treasury Bills. This move extends the use of these rupee balances beyond trade payments to include secure investment in sovereign debt instruments.

The directions were issued under the Foreign Exchange Management Act, 1999 (FEMA), specifically referencing related debt and deposit regulations and updating the RBI's Master Direction on Non-resident Investment in Debt Instruments, 2025. This regulatory update builds on the framework introduced in 2022 that permitted opening SRVAs to facilitate INR-based trade settlement. The RBI has instructed all Authorised Dealer Category-I banks to inform their customers and ensure compliance and operational readiness. .

Banking Laws (Amendment) Act, 2025: Key Reforms and Objectives

The Banking Laws (Amendment) Act, 2025, which came into effect on August 1, 2025, introduces significant reforms to India's banking sector, aiming to strengthen governance, protect depositors, and improve audit quality. This legislation amends five major banking acts, including the Reserve Bank of India Act (1934) and the Banking Regulation Act (1949). Key changes include raising the threshold for a "substantial interest" in banks from Rs. 5 lakh to Rs. 2 crore and extending the tenure of directors in cooperative banks from 8 to 10 years to align with the 97th Constitutional Amendment. Additionally, the Act allows public sector banks to transfer unclaimed shares and interest to the Investor Education and Protection Fund (IEPF), bringing them in line with company law provisions. It also empowers these banks to remunerate statutory auditors, a move designed to enhance audit quality and ensure greater financial transparency. Overall, the Act's primary objective is to modernize regulatory frameworks and align them with global best practices, creating a more robust and transparent banking ecosystem.

The RBI Issues (Non-Fund Based Credit Facilities) Directions, 2025

The RBI has issued the Reserve Bank of India (Non-Fund Based Credit Facilities) Directions, 2025, which will be effective from April 1, 2026. These Directions consolidate and harmonize guidelines for Non-Fund Based (NFB) credit facilities such as guarantees, letters of credit, and co-acceptances across all regulated entities (REs), including commercial banks, cooperative banks, All India Financial Institutions (AIFIs), Non-Banking Financial Companies (NBFCs), and Housing Finance Companies (HFCs). The Directions require that NFB facilities be primarily extended to customers who have existing funded credit facilities with the RE. They mandate that guarantees issued must be irrevocable, unconditional, and payable on demand. The guidelines also emphasize the importance of strong internal controls, system integration, and monitoring mechanisms to manage risks associated with these credit facilities effectively.

RBI Issues a Notification to Comply With Section 51A of The Unlawful Activities (Prevention) Act, 1967 (UAPA)

The RBI issued a notification dated August 25, 2025, directing all Regulated Entities (REs) to comply with Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA) in relation to updates from the United Nations Security Council's 1267/1989 ISIL (Da'esh) and Al-Qaida Sanctions List. This updated sanction list includes detailed profiles of individuals and entities linked to terrorism, and REs are mandated not to maintain accounts or provide any facilities to those listed. The notification highlights strict adherence to the RBI Master Direction on Know Your Customer (KYC) and relevant UAPA guidelines. Additionally, it specifies the procedure for handling delisting requests, which must be forwarded to the Ministry of Home Affairs, with the United Nations Ombudsperson designated as the authority for reviewing such applications. REs are urged to rigorously follow these updates, ensuring that no accounts are maintained for sanctioned persons or entities, thereby contributing to India's commitment to global counter-terrorism measures. Complete details, including narratives for listings and sanctions rationale, are accessible on the United Nations Security Council website, reinforcing transparency and regulatory compliance.

The RBI issues Notification to ensure compliance with Supreme Court's Directives on ensuring access to Digital KYC Process to Persons with Disabilities

The RBI, vide Notification dated August 14, 2025, directing all Regulated Entities to ensure compliance with the directives issued by the Hon'ble Supreme Court of India through its judgment in Pragya Prasun and Ors. vs Union of India (W.P.(C) 289 of 2024) and Amar Jain vs. Union of India & Ors. (W.P.(C) 49 of 2025). The Directives seek to make the process of digital KYC accessible to all persons with disabilities, especially facial/ eye disfigurements due to acid attacks and visual impairments. The judgment is based on a Writ Petition filed by the acid attack victims seeking formulation of appropriate rules and guidelines to make the digital KYC process more inclusive and accessible in accordance with the provisions of the Rights of Persons with Disabilities Act, 2016.

SEPTEMBER

The RBI allows Risk-Based check in New Digital Payment Guidelines

The RBI has issued Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025, allowing issuers to implement risk-based authentication checks in digital payment transactions. Effective from April 1, 2026, this new framework permits additional authentication measures beyond the mandatory two-factor authentication, depending on the fraud risk of a transaction. The guidelines support the use of emerging technologies for authentication without discontinuing SMS-based One-Time Passwords (OTP) and require card issuers to validate extra authentication for non-recurring, cross-border, card-not-present transactions upon request by overseas merchants or acquirers. This move aims to enhance security while encouraging innovation in fraud prevention in digital payments.

The RBI issues consolidated Regulations for Payment Aggregators

The RBI has issued the comprehensive Master Direction on Regulation of Payment Aggregators, 2025, effective from September 15, 2025, consolidating and superseding all prior guidelines to provide a uniform regulatory framework for entities facilitating the aggregation of customer payments to merchants through various channels. These Directions categorise Payment Aggregators into three types: PA-Online (PA-O), dealing with e-commerce and app-based transactions; PA-Physical (PA-P), covering face-to-face or proximity payments; and PA-Cross Border (PA-CB), handling international payment flows. The Directions set out a clear authorisation process requiring applicants, particularly non-bank entities, to maintain a minimum net worth of ₹15 crore at application and ₹25 crore by the end of the third year. They impose rigorous merchant due diligence, including KYC, AML checks, and physical verification for PA-P merchants, alongside detailed operational procedures such as mandatory escrow accounts, secure settlement mechanisms, enhanced cybersecurity protocols, and strict data protection measures, including card-on-file restrictions. Additionally, PA-CB aggregators must comply with specific cross-border transaction regulations, ensuring transparency and regulatory compliance.

The RBI allows Standalone Primary Dealers in NDD Contracts

The RBI has issued a circular dated September 22, 2025, authorising Standalone Primary Dealers (SPDs) to participate in non-deliverable rupee derivative (NDD) markets. This circular broadens the scope of entities permitted to trade in Rupee NDD contracts, which were earlier restricted to Authorised Dealer Category-I (AD Cat-I) banks operating International Financial Services Centre (IFSC) Banking Units and overseas banks. With this inclusion, SPDs authorised as Authorised Dealer Category-III (AD Cat-III) can now transact in these contracts, enhancing market liquidity and offering them better risk management tools. The circular is effective immediately from the date of issuance and also includes amendments to the Master Direction on Risk Management and Inter-Bank Dealings to facilitate this change.

The RBI conducts Two Variable Rate Repo Auctions to infuse Liquidity in the Banking System

The RBI conducted two Variable Rate Repo (VRR) auctions aimed at injecting liquidity into the banking system. On September 18, 2025, surplus liquidity had decreased primarily due to higher advance tax outflows, prompting the RBI to act. In the first VRR auction with a six-day tenor, RBI aimed to infuse ₹1 lakh crore, receiving bids worth Rs. 59,967 crore, all accepted at a weighted average interest rate of 5.51%. The second auction with a three-day tenor targeted Rs. 50,000 crore, but attracted a lukewarm response with bids amounting to only ₹390 crore, accepted at a rate of 5.52%. The RBI's objective is to maintain a liquidity surplus between Rs. 1.50 lakh crore and Rs. 2 lakh crore to ensure effective transmission of repo rate cuts into lending and deposit rates. Additionally, RBI is implementing phased reductions in the cash reserve ratio (CRR) starting October 2025, expected to release approximately Rs. 2.5 lakh crore by December 2025, further supporting liquidity.

The RBI constitutes Regulatory Review Cell to strengthen institutional mechanism for review of regulations

The RBI has constituted a Regulatory Review Cell (RRC) on September 17, 2025, to strengthen the institutional mechanism for reviewing its regulations. Effective from October 1, 2025, the RRC will operate under the Department of Regulation and will conduct systematic and comprehensive internal reviews of all RBI regulations every five to seven years in a phased manner. The objective is to ensure that the regulatory framework remains contemporary, consistent, and responsive to evolving market and policy dynamics. Alongside the RRC, RBI has established an independent Advisory Group on Regulation (AGR), comprising six external experts from the financial sector, chaired by Rana Ashutosh Kumar Singh, Managing Director of State Bank of India. The AGR will facilitate industry feedback and help channel stakeholder inputs into the regulatory review process, enhancing regulatory agility and stakeholder engagement. This initiative aligns with RBI's broader vision of periodically revising regulations to remove redundancies and incorporate best global practices.

The Finance Ministry urges the Public Sector Banks to enhance credit-based funding to labour-intensive sectors

The Finance Ministry has expressed serious concerns regarding the sluggish credit growth by Public Sector Banks (PSBs) to labour-intensive sectors, including manufacturing and mining, which are crucial for job creation and economic growth. Despite overall credit expansion, PSB lending to these export-oriented and labour-intensive industries has witnessed minimal growth of just 1.3% over the last five years until fiscal year 2025. In stark contrast, credit to the finance category surged by 17.7%, highlighting a skewed credit allocation favouring financial businesses over real sectors that generate direct employment. To address this issue, the Finance Ministry has urged PSBs to diversify their credit portfolios by increasing funding to mid-sized companies, agriculture, micro, small and medium enterprises (MSMEs), start-ups, and specifically labour-intensive industries. This strategic shift aims to promote inclusive and sustainable economic development, job creation, and balanced sectoral growth.



JUDICIAL PRONOUNCEMENTS

IL & FS Financial Services Ltd. v. Adhunik Meghalaya Steels (P) Ltd., 2025 SCC OnLine SC 1567

The Supreme Court of India addressed the issue of the limitation period for initiating corporate insolvency resolution proceedings under the Insolvency and Bankruptcy Code, 2016 (IBC). The case centered on an appeal by IL&FS Financial Services Ltd. (IFIN), a financial creditor, against the National Company Law Appellate Tribunal's (NCLAT) decision to dismiss its application under Section 7 of the IBC. The NCLAT had found the application to be time-barred, meaning it was filed after the statutory three-year period for a debt to be claimed had expired. The Supreme Court, however, overturned this decision, holding that an entry in the corporate debtor's (Adhunik Meghalaya Steels Pvt. Ltd.) balance sheet for the financial year 2019-20 constituted a valid acknowledgment of debt under Section 18 of the Limitation Act, 1963. This acknowledgment effectively extended the limitation period, making IFIN's application timely. The Court's judgment reaffirms the principle that a balance sheet entry can serve as a valid acknowledgment of debt.

M/S Edelweiss Asset Reconstruction Limited v. Regional PF Commissioner II and Recovery Officer, RO Bengaluru (Koramangala) & Anr., 2025 SCC OnLine SC 1826

The Supreme Court of India set aside a Karnataka High Court order that had dismissed Edelweiss's writ petition and directed transfer of ₹75 lakhs to the Employees' Provident Fund Organisation (EPFO), the Respondent. The case arose from conflicting claims between the EPFO and secured creditors, Axis Bank and Edelweiss ARC over priority of recovery from properties auctioned after Acropetal Technologies defaulted on provident fund dues. While Edelweiss argued that its liability was limited to a proportionate share since Axis Bank had realised a much higher amount from its auction, Axis Bank invoked Section 35 of the SARFAESI Act to assert priority over statutory dues. The Supreme Court held that the High Court erred in deciding the matter without impleading Axis Bank, and hence dismissed the impugned Order and restored the High Court Petition upon adding all secured creditors as parties. The Supreme Court stressed that the High Court must examine the interplay between Section 11(2) of the PF Act (priority to PF dues) and Section 35 of the SARFAESI Act (priority of secured creditors) before determining liability.

Contributors:



Kunal Verma
Managing Partner
kunal@rpvlegal.com



Waheb Hussaini
Partner
waheb@rpvlegal.com



Aayushman Sharma
Associate
aayushman@rpvlegal.com



Ekamjot Singh Bagga
Associate
ekamjot@rpvlegal.com

Contact Information:



D-19, Second Floor, Geetanjali Enclave,
New Delhi - 110017



2216, Wright Town, Jabalpur,
Madhya Pradesh - 482002



+011 -41834272



+91 76140 30336



info@rpvlegal.com, delhi@rpvlegal.com



info@rpvlegal.com, jabalpur@rpvlegal.com



RPV Legal

Advocates since 1934