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Regulatory Updates

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Jul 02, 2025 : Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025

Tags:

Pre-payment Charges, Customer Protection, Floating Rate Loans, MSE lending

Summary:

The Reserve Bank of India's (RBI) regulation on 'Pre-payment Charges on Loans' aims to standardize practices among Regulated Entities (REs) regarding pre-payment charges on loans, particularly for Micro and Small Enterprises (MSEs). Effective January 1, 2026, it introduces a ban on pre-payment charges for non-business loans and restricts such charges on business loans to MSEs, small banks, and cooperative banks for amounts up to ₹50 lakh. This directive affects all commercial banks (excluding payments banks), cooperative banks, NBFCs, and All India Financial Institutions, promoting fair practices and reducing borrower grievances.

Insights:

- **Prohibits Pre-payment Charges on Key Loan Categories:** For all floating-rate loans, banks are now forbidden from levying pre-payment penalties on (1) any loan to an individual (e.g., home/personal loans) and (2) any business loan to Micro and Small Enterprises (MSEs).
- **Creates a Two-Tier System based on Bank Size:** Smaller entities like Small Finance Banks (SFBs) and Regional Rural Banks (RRBs) have a partial exemption. They can still charge pre-payment fees on MSE business loans, but only if the sanctioned amount is above ₹50 lakh.
- **Transparency in Documentation:** The policy on pre-payment charges (even if "Nil") must be explicitly disclosed in the sanction letter, the loan agreement, and the Key Facts Statement (KFS). No charge can be levied if it wasn't disclosed upfront.
- **Closes Common Loopholes:** The rules apply regardless of where the borrower gets the funds for pre-payment (e.g., from another lender). The circular also explicitly bans any "minimum lock-in period" that would prevent early repayment.
- **Requires Immediate System and Policy Overhaul:** Banks must update their core banking systems to reflect these new rules, revise all loan document templates, and re-evaluate product pricing to account for the loss of fee income before the January 1, 2026 deadline.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12878&Mode=0>

Jul 04, 2025 : Foreign Exchange Management (Export of Goods & Services) (Amendment) Regulations, 2025

Tags:

Foreign Exchange Management, Export of Goods & Services, Offshore Support Vessels, Re-import Requirement

Summary:

The Reserve Bank of India amends the Foreign Exchange Management (Export of Goods & Services) Regulations, 2015, to include the provision that tugs, tug boats, dredgers, and vessels used for providing offshore support services are subject to re-import into India. This amendment impacts businesses that export these equipment and requires them to ensure compliance with re-import requirements, thus affecting offshore support service providers and their operational frameworks.

Insights:

- **New Declaration Exemption for Specialized Vessels:** The primary insight is that the amendment carves out a new exemption. Tugs, dredgers, and vessels used for offshore support can now be exported without filing the normally required export declaration forms (like EDF).
- **Streamlines Operations for the Offshore & Marine Industry:** This change directly benefits companies in sectors like port construction, dredging, and offshore oil and gas support. It significantly reduces the compliance paperwork and procedural hurdles for temporarily moving high-value capital assets to international project sites.
- **Exemption is Strictly Conditional on Re-Import:** This is not for permanent sales. The exemption is explicitly granted "subject to their re-import into India." Companies must ensure their contracts and logistics planning account for the eventual return of these vessels to remain compliant.
- **Easing Paperwork, Not Forex Obligations:** While the upfront declaration is waived, this does not change the core FEMA rule. Any foreign exchange earned from the services these vessels provide abroad must still be realized and repatriated to India within the timeframes specified in the main regulation (Regulation 9).

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12879&Mode=0>

Jul 10, 2025 : Basel III Capital Regulations – External Credit Assessment Institutions (ECAIs) – CareEdge Global IFSC Limited

Tags:

Basel III, External Credit Assessment Institutions, CareEdge Global IFSC Limited, Rating Agency

Summary:

The Reserve Bank of India's regulation allows scheduled commercial banks, except for local area banks, payments banks, and regional rural banks, to use ratings from CareEdge Global IFSC Limited for determining risk weights related to capital adequacy concerns for claims on non-resident corporates originating at International Financial Services Centre (IFSC). This update introduces an additional credit rating agency to the previously approved list, which included Fitch, Moody's, and Standard & Poor's. The regulation impacts banks and modifies risk weights specifically for ratings ranging from AAA to BB and below, corresponding to percentages from 20% to 150%.

Insights:

- **New Rating Agency Approved:** The RBI has accredited CareEdge Global IFSC as a new External Credit Assessment Institution (ECAI). Banks can now use its ratings for calculating the risk weights of their exposures under Basel III norms.
- **Exclusive Scope for IFSC Lending:** This approval is not for general domestic use. It is strictly for risk-weighting loans to non-resident corporates where the exposure originates within an International Financial Services Centre (IFSC), like GIFT City.
- **Strategic Push for the IFSC Ecosystem:** This move aims to strengthen India's IFSC by building more local financial infrastructure. It reduces the sole reliance on major international rating agencies for transactions conducted within the center.
- **Immediate Action for IFSC Branches:** Banks operating in an IFSC must update their internal credit policies to recognize the new agency. This provides more flexibility and options for risk-assessing their IFSC-based loan portfolio.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?id=12880&Mode=0>

Jul 11, 2025 : Lending Against Gold and Silver Collateral - Voluntary Pledge of Gold and Silver as Collateral for Agriculture and MSME Loans

Tags:

Gold and Silver Collateral, Voluntary Pledge Loans, Agriculture and MSME Loans,

Summary:

The Reserve Bank of India (RBI) has issued a clarification on loans against voluntary pledging of gold and silver as collateral by borrowers for agricultural and MSME loans. The regulation specifies that such loans, when sanctioned up to the collateral-free limit, will not be considered a violation of existing guidelines on collateral usage. This clarification impacts scheduled commercial banks, including regional rural banks and small finance banks, as well as state co-operative banks and district central co-operative banks, aligning their practices with the RBI's lending directions.

Insights:

- **Voluntary Collateral in Agri/MSME Loans:** Banks are explicitly permitted to accept gold and silver as collateral for Agriculture and MSME loans, even for amounts that fall within the mandatory collateral-free limit. This is allowed only when the pledge is offered voluntarily by the borrower, resolving a key operational ambiguity.
- **Shift Compliance Focus from 'Refusing' to 'Recording':** The compliance focus is no longer on refusing all collateral for these specific loans. Instead, it's on ensuring the process is purely borrower-initiated and meticulously documented. The key is to prove the bank never demanded or suggested the collateral in any way.
- **Voluntary Pledge Declaration:** While the circular doesn't mandate a specific form, it is highly recommended best practice for banks to introduce a Voluntary Pledge Declaration. This creates a defensible audit trail where the borrower attests that the pledge was offered of their own free will, protecting the bank and ensuring easy proof of compliance.
- **Standard Gold Loan Rules Still Apply:** Accepting a voluntary pledge does not exempt the loan from the broader regulations governing gold loans. All standard directives regarding Loan-to-Value (LTV) ratios, valuation methodology, and transparent auction procedures must still be strictly followed for these loans.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12881&Mode=0>

Jul 17, 2025 : Inclusion of “NSDL Payments Bank Limited” in the Second Schedule of the Reserve Bank of India Act, 1934

Tags:

NSDL Payments Bank Limited, Second Schedule, Reserve Bank of India Act 1934

Summary:

The recent regulatory update from the Reserve Bank of India entails the inclusion of 'NSDL Payments Bank Limited' in the Second Schedule of the Reserve Bank of India Act, 1934. This change, communicated through a notification dated June 19, 2025, and published in the Gazette of India on July 10, 2025, recognizes NSDL Payments Bank Limited as a scheduled bank. This inclusion impacts the bank as it will now be subject to certain regulatory benefits and obligations afforded to scheduled banks under the RBI Act.

Insights:

- **Update of Internal Bank Master Records:** The immediate action is to update all internal systems, particularly the master list of Indian banks, to correctly classify "NSDL Payments Bank Limited" as a

'Scheduled Bank'. This ensures that for all future inter-bank transactions and internal reporting, its status is accurately reflected.

- **Impact on Regulatory and Statutory Reporting:** All regulatory returns filed with the RBI that require categorization of bank exposures must now correctly identify NSDL Payments Bank as a scheduled entity. Automated reporting processes and templates should be verified to ensure they align with this new status to prevent reporting errors.
- **Review of Counterparty Exposure Limits:** The change in status means NSDL Payments Bank now has access to RBI's liquidity facilities, altering its counterparty risk profile. Internal risk policies and inter-bank exposure limits applicable to NSDL Payments Bank should be reviewed to reflect its enhanced standing.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12882&Mode=0>

Jul 18, 2025 : Formation of new district in the State of Arunachal Pradesh – Assignment of Lead Bank Responsibility

Tags:

Lead Bank Assignment, New Districts, Keyi Panyor, Bichom, State Bank of India

Summary:

The Reserve Bank of India's recent notification addresses the formation of two new districts, Keyi Panyor and Bichom, in Arunachal Pradesh, assigning State Bank of India as the Lead Bank for both districts. The notification specifies district working codes for the new districts, namely 02S and 02T, for Keyi Panyor and Bichom respectively. This regulation primarily impacts the Lead Banks and state authorities in Arunachal Pradesh, while there are no changes for Lead Banks in the state's other districts.

Insights:

- **New Lead Bank Mandate:** State Bank of India (SBI) is now formally responsible for coordinating all banking activities in the two new districts. This mandates SBI to convene District Consultative Committee (DCC) meetings, formulate district credit plans, and monitor the credit and financial inclusion performance of all banks within Keyi Panyor and Bichom.
- **Updation of District Codes in Core Systems:** All banks must take immediate action to update their internal systems (Core Banking System, MIS, reporting software) with the newly allotted district working codes: '02S' for Keyi Panyor and '02T' for Bichom. Failure to update these codes will lead to incorrect geographical tagging of loans and inaccurate regulatory reporting.
- **Re-alignment of Branches and Loan Portfolios:** Banks with branches in the parent districts from which Keyi Panyor and Bichom were created must now undertake a re-mapping exercise. Existing branches, customer accounts, and loan portfolios must be re-aligned to the new district boundaries to ensure accurate performance monitoring and reporting under the Lead Bank Scheme.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12883&Mode=0>

Jul 25, 2025 : Inclusion of “Ahmednagar Merchant’s Co-op. Bank Ltd., Ahmednagar” in the Second Schedule of the Reserve Bank of India Act, 1934

Tags:

Ahmednagar Merchant’s Co-op. Bank Ltd., Second Schedule Inclusion, Reserve Bank of India Act 1934

Summary:

The Reserve Bank of India (RBI) has included Ahmednagar Merchant’s Co-op. Bank Ltd., Ahmednagar in the Second Schedule of the RBI Act, 1934, officially granting it the status of a 'Scheduled Co-operative Bank'. This inclusion signifies that the bank meets the RBI's criteria for financial soundness. It grants the bank key privileges, including eligibility for loans and liquidity support from the RBI, direct access to the banking clearing house system, and the ability to participate in the inter-bank call money market. This fundamentally enhances the bank's operational capabilities and regulatory standing

Insights:

- **Internal Bank Master Must Be Updated:** The internal master data across all banking systems must be modified. The entry for "Ahmednagar Merchant’s Co-op. Bank Ltd., Ahmednagar" must be updated to reflect its new status as a "Scheduled Bank" to ensure operational accuracy.
- **Regulatory Reporting Templates Must Be Verified:** All regulatory returns submitted to the RBI that categorize inter-bank exposures must be checked. It must be confirmed that reporting systems now correctly classify any transaction or exposure involving this bank under the 'Scheduled Co-operative Bank' heading.
- **Counterparty Exposure Limits Must Be Reviewed:** The treasury and risk management departments must be notified of this change. Internal counterparty exposure limits set for this bank must be reviewed, as its new scheduled status directly impacts its risk profile.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12885&Mode=0>

Jul 25, 2025 : Inclusion of “Deogiri Nagari Sahakari Bank Ltd., Chhatrapati Sambhajinagar” in the Second Schedule of the Reserve Bank of India Act, 1934

Tags:

Deogiri Nagari Sahakari Bank, Second Schedule inclusion, Reserve Bank of India Act 1934

Summary:

This notification from the Reserve Bank of India (RBI) advises that ‘Deogiri Nagari Sahakari Bank Ltd., Chhatrapati Sambhajinagar’ has been included in the Second Schedule of the RBI Act, 1934. This officially grants the entity the status of a ‘Scheduled Co-operative Bank’. The inclusion signifies that the bank meets the RBI's criteria for financial stability and provides it with key privileges, such as eligibility for liquidity support from the RBI and direct access to the banking clearing house system.

Insights:

- **Internal Bank Master Must Be Updated:** The internal master data across all banking systems must be modified. The entry for "Deogiri Nagari Sahakari Bank Ltd., Chhatrapati Sambhajinagar" must be updated to reflect its new status as a "Scheduled Bank" to ensure operational accuracy.
- **Regulatory Reporting Templates Must Be Verified:** All regulatory returns submitted to the RBI that categorize inter-bank exposures must be checked. It must be confirmed that reporting systems now correctly classify any transaction or exposure involving this bank under the 'Scheduled Co-operative Bank' heading.
- **Counterparty Exposure Limits Must Be Reviewed:** The treasury and risk management departments must be notified of this change. Internal counterparty exposure limits set for this bank must be reviewed, as its new scheduled status directly impacts its risk profile.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12884&Mode=0>

Jul 29, 2025 : Reserve Bank of India (Investment in AIF) Directions, 2025

Tags:

Alternative Investment Funds (AIFs), Investment Limits, Non-Banking Financial Companies (NBFCs)

Summary:

The Reserve Bank of India's (RBI) 2025 Directions regulate investments by specified financial entities, including commercial banks and non-banking financial companies, in Alternative Investment Funds (AIFs). Major updates include limits on individual and collective contributions to AIFs by these entities and provisions for specific

scenarios, such as contributions to AIFs with downstream investments in debtor companies. This regulation, effective January 1, 2026, repeals earlier circulars and impacts the investment policies of regulated entities, mandating that their AIF investments comply with new limits and provisioning requirements.

Insights:

- **Revision of Investment Policy:** Internal investment policies must be revised to incorporate the new directions, ensuring full compliance with the updated framework before January 1, 2026.
- **Prudential Limits on AIF Exposure:** Investment in any single AIF Scheme is capped at 10% of the corpus for an individual Regulated Entity (RE), and collective contributions from all REs to any single scheme cannot exceed 20% of its corpus.
- **Provisioning for Downstream Exposure in Debtor Companies:** If an RE's investment exceeds 5% of the corpus in an AIF that has downstream investments in a 'debtor company' of the RE, a 100% provision must be made against the RE's proportionate investment in that debtor company.
- **Mandated Capital adjustments for Subordinated Units:** Investments made in the form of subordinated units are subject to stringent capital treatment, requiring the entire investment amount to be deducted from the RE's regulatory capital funds.

Further details can be found on:

<https://rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12886&Mode=0>