Compliance Matters

JUNE 2025 | ISSUE 06

INDIA REGULATORY ROUND UP

Monthly Newsletter from Compliance Matters

"With the right mix of well thought of and carefully crafted regulation, technological advancement, and institutional empathy, our collective efforts can dismantle longstanding barriers and usher in a new era of inclusive and sustainable financial growth."

-Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India

The Reserve Bank of India Monetary Policy Update - June 2025

- **Policy Rates:** Link
- The repo rate has been reduced by 50 basis points to 5.50%, with corresponding adjustments:
  - Standing Deposit Facility (SDF): 5.25%
  - Marginal Standing Facility (MSF) and Bank Rate: 5.75%
  - Standing Liquidity Facility (SLF) for Primary Dealers will be available at the revised repo rate: Link
- **Cash Reserve Ratio (CRR):**
- To ease liquidity, CRR will be reduced in phases as follows:
  - 3.75% from September 6, 2025
  - 3.50% from October 4, 2025
  - 3.25% from November 1, 2025
  - 3.00% from November 29, 2025.
- **Penal Rates:**
- Penal interest on CRR/SLR shortfalls has been revised downward in line with the reduced Bank Rate.

Review of Qualifying Assets Criteria

The RBI has revised the qualifying asset criteria for NBFC-MFIs under the Master Direction on Microfinance Loans. Now, qualifying assets must form at least 60% of total assets (excluding intangibles) on an ongoing basis. If an NBFC-MFI fails to meet this requirement for four consecutive quarters, it must submit a remediation plan to the RBI. The updated provision is effective immediately and the Master Direction is being amended accordingly.

Basel III Capital Regulations - External Credit Assessment Institution (ECAI)

RBI has reviewed the use of Brickwork Ratings India Pvt Ltd (BRIPL) under the Basel III Capital Regulations. Earlier restrictions/limits on using BRIPL's ratings for capital adequacy purposes have now been removed. Banks can now freely use BRIPL's ratings for risk-weighting their claims. All other provisions under the Master Circular on external credit assessments remain unchanged.

Foreign Exchange Management (Foreign Currency Accounts by a Person Resident in India) (Sixth Amendment) Regulations, 2025

RBI has issued the Sixth Amendment to the Foreign Exchange Management (Foreign Currency Accounts by a Person Resident in India) Regulations, 2015. Effective from the date of publication in the Official Gazette, the amendment relates to Schedule II concerning Diamond Dollar Accounts (DDAs). The eligibility period mentioned in the DDA application form has been revised from "2 years" to "three years".

Aadhaar Enabled Payment System – Due Diligence of AePS Touchpoint Operators

RBI has issued directions to enhance the security of the Aadhaar Enabled Payment System (AePS), in response to rising frauds involving identity theft and misuse of customer credentials. To strengthen trust in AePS and support financial inclusion, banks are now required to streamline the onboarding of AePS touchpoint operators and strengthen fraud risk management practices.

Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025

As part of its move towards principle based regulation and have a harmonised regulatory framework, that will address prudential and conduct issues accross REs, RBI has issued the Lending against Gold and Silver Collateral Directions 2025 which will have to be put in place no later than April 1, 2026. This is also expected to address the concerns around lending practices being followed. Lenders are expected to have a policy in place specifying limits/aggregate limits for the portfolio of loans against the eligible collateral, maximum LTV permissible etc. Loans/advances cannot be granted against collateral of primary gold or silver or financial assets backed by such security eg. units of Exchange Traded Funds (ETFs) /units of Mutual Funds. Loans should not be granted against collateral whose ownership is doubtful. Multiple or frequent sanction of loans to a borrower, the aggregate of which would be in excess of bank's specified limits should be examined closely under transaction monitoring as part of the AML framework. The Directions also specifies the maximum LTV ratio limit for total consumption loans per borrower which should be adhered to.

Large Exposures Framework – Amendment in the list of exempted exposures

RBI has amended the Large Exposures Framework (LEF) to expand the list of exempted exposures. Previously, only deposits with NABARD for priority sector shortfall were exempt from LEF limits. Now, contributions to NHB, SIDBI, MUDRA Ltd., or any other RBI-specified entities for similar shortfalls are also exempt. These exposures will not count towards the large exposure limits under LEF.

Reserve Bank of India (Know Your Customer (KYC)) (Amendment) Directions, 2025

RBI has amended the KYC Directions, 2016 to improve consumer service and protection. For low-risk individual customers, all transactions must be allowed, and KYC should be updated within one year of due date for KYC or by June 30, 2026, whichever is later, with regular monitoring. Banks may use Business Correspondents (BCs) for KYC updation periodic updation of KYC, Customers can give self-declaration and supporting documents via BCs, if there is no change in KYC information or only change in address details ,using e-KYC or physical form (till digital option is enabled). Banks must give at least three advance KYC update reminders and three post-due date reminders, including at least one by letter, with full instructions and escalation details. All communication efforts must be recorded in the system for audit, and implementation must be completed by January 1, 2026.

Inoperative Accounts/ Unclaimed Deposits in Banks - Revised Instructions (Amendment) 2025

RBI has amended the 2024 instructions on inoperative accounts and unclaimed deposits in banks, effective immediately. Banks must now offer KYC updation for reactivating such accounts at all branches, including non-home branches. Banks are also encouraged to provide Video-Customer Identification Process (V-CIP) facility for KYC updation in these accounts. Additionally, banks may use services of authorized Business Correspondents (BCs) for KYC updation, as per paragraph 38(a)(iia) of the KYC Master Direction.

Updation/ Periodic Updation of KYC – Revised Instructions

RBI has revised KYC updation guidelines to address large pendency in perodic updation of KYC including in accounts opened for credit of DBT/EBT, scholarship, other benefits from Government sponsored schemes and PMJDY-linked accounts. Banks must conduct KYC camps and awareness drives, particularly in rural/semi-urban areas and branches with high KYC pendency. Activation of such accounts should be approached with empathy.

SEBI | Margin obligations to be given by way of Pledge/Re-pledge in the Depository System

SEBI has amended rules for margin obligations to make the process of selling pledged client securities smoother and reduce unsold stock buildup. From September 5, 2025, brokers can use a single automated instruction to both release pledge and deliver securities for trades, eliminating manual steps.

Penalty corner

Imposed a monetary penalty of ₹16,000 on **Khush Housing Finance Private Limited**, Mumbai, Maharashtra for non-compliance with certain directions issued by RBI on 'Know Your Customer (KYC)'. The company had failed to carry out risk categorisation of its customers.

Imposed a monetary penalty of ₹32,000 on **India Home Loan Ltd.**, Mumbai, Maharashtra for non-compliance with certain directions issued by RBI on 'Know Your Customer (KYC)'. The company had failed to:
i. carry out periodic review of risk categorisation of accounts with such periodicity being at least once in six months; and
ii. conduct periodic updation of KYC of its customers.

Imposed a monetary penalty of ₹2 lakh on **PayMe India Financial Services Private Limited** for non-compliance with specific conditions of Certificate of Registration (CoR) issued by RBI and certain provisions of 'Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016' read with 'Reserve Bank of India (Non-Banking Financial Company - Scale Based Regulation) Directions, 2023' issued by RBI. The company had:
i. accepted public deposits in violation of the specific conditions of CoR; and
ii. failed to obtain prior written permission of RBI for change in shareholding in excess of 26 percent of its paid-up equity capital.

Imposed a monetary penalty of ₹29.60 lakh on **Fino Payments Bank Limited** for non-compliance with certain directions issued by RBI on 'Licensing of Payments Banks'. The bank breached the regulatory ceiling of end of the day balance, as applicable for a payments bank, in certain accounts on several occasions.

Stripping/Reconstitution in State Government Securities

RBI has permitted Separate Trading of Registered Interest and Principal of Securities (STRIPS) in State Government Securities (SGS), extending the facility already available for Central Government securities since 2010. STRIPS will apply to fixed coupon SGS/UT securities with a residual maturity up to 14 years and a minimum outstanding of ₹1,000 crore,which are eligible for SLR and are transferable. SGL account holders can directly place requests for stripping/reconstitution via e-Kuber; Gilt Account Holders must route through custodians. ISIN and naming conventions for STRIPS in SGS will align with those used for Central Government STRIPS. All earlier RBI circulars on stripping/reconstitution of government securities will apply, and the facility is effective immediately from the date of this circular.

Import of Shipping Vessel - Relaxation

RBI has relaxed rules under Para C.1 of the Master Direction – Import of Goods and Services (dated January 1, 2016). Importers can now make advance remittance up to USD 50 million for importing shipping vessels. This remittance can be made without furnishing a bank guarantee or an unconditional, irrevocable standby Letter of Credit. The relaxation is aimed at improving ease of doing business and addressing sector-specific constraints. The remittance is subject to conditions outlined in para C.1.3.3 of MD-Imports. AD Category-I banks must inform relevant constituents of this change.

Review of Priority Sector Lending norms - Small Finance Banks

From financial year 2025-26 onwards, Small Fnance banks must allocate 60% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher, to priority sector lending, (instead of 75%) with 40% allocated to prescribed sub-sectors as per existing PSL guidelines and the remaining 20% to one or more PSL sub-sectors where they have a competitive advantage, thereby reducing the previously allowed discretionary allocation of 35% and ensuring focused deployment under PSL.

Reserve Bank of India (Project Finance) Directions, 2025

The RBI, through its Project Finance Directions, 2025 issued on June 19, 2025 (effective from October 1, 2025) has introduced a unified, principle-based framework for financing infrastructure and non-infrastructure projects by regulated entities. The framework defines clear prudential norms across project life-cycle stages - design, construction, and operational. It permits flexible extension of Date of Commercial Operation (DCCO) by lenders (up to 3 years for infrastructure and 2 years for non-infrastructure) and specifies revised provisioning norms for standard assets on a portfolio basis both during construction and operational phase. Stress events such as delays or defaults must be addressed through a mandatory review and resolution process. It also sets minimum exposure thresholds for individual lenders in large under construction projects with aggregate exposures of upto Rs 1500 crore/above Rs1500 crore and mandates linkage of disbursements to project milestones and equity infusion, thus aiming to enhance credit discipline while enabling sustainable financing.

The Depositor Education and Awareness (DEA) Fund Scheme, 2014 – Revised Operational Guidelines

RBI has revised the guidelines for the Depositor Education and Awareness (DEA) Fund Scheme, 2014 streamline processes for transferring unclaimed deposits and claiming refunds, effective from October 1, 2025. Banks must register on the e-Kuber system, submit details of authorised signatories, and transfer unclaimed amounts monthly, ensuring tax and legal compliance. Sponsor banks can transfer on behalf of non-member banks. Claims for refunds are submitted monthly, with proper certification and verification before reimbursement. Banks must submit returns like Form I, Form II, Form III, rectification forms, and annual certificates, verified by internal and statutory auditors. Reconciliation of DEA Fund balances is mandatory every six months. Banks must ensure proper record-keeping, accurate returns, and prompt submission of required documents. Contact updates and disclosures in notes to accounts must also be made as per prescribed format.

SEBI | Framework for Environment, Social and Governance (ESG) Debt Securities (other than green debt securities)

SEBI has issued a circular effective June 5, 2025, introducing an operational framework for ESG Debt Securities, including social, sustainability, and sustainability-linked bonds (excluding green bonds). These bonds must follow global or Indian regulatory standards. Issuers must disclose details in offer documents, appoint independent reviewers, and ensure proper use of funds, transparent monitoring, and avoidance of misleading claims. Specific norms apply for issuers on SME exchanges.

SEBI | Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions"

SEBI has introduced revised Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions," applicable from September 1, 2025. Listed entities must now comply with these revised disclosure norms.

SEBI | Extension of timeline of additional liquidation period for VCFs migrating to SEBI (Alternative Investment Funds) Regulations, 2012

SEBI has extended the additional liquidation period for Venture Capital Funds (VCFs) migrating to SEBI (Alternative Investment Funds) Regulations, 2012. VCFs whose schemes have not wound up after their liquidation period may now avail the extended liquidation period until July 19, 2026, instead of July 19, 2025. However, the deadline to apply for migration remains July 19, 2025.

SEBI to Introduce "Validated UPI Handles" and "SEBI Check" for Secured Payments by Investors to Enhance Investor Protection and Combat Fraud

Starting October 1, 2025, SEBI will require all registered intermediaries collecting funds to use validated UPI IDs ending with "@valid", issued by NPCI and marked with a unique verification icon. Intermediaries must also provide a QR code featuring this icon for payments. Additionally, the "SEBI Check" tool will let investors verify UPI IDs and bank details by scanning QR codes or manual entry. These steps aim to enhance security, prevent fraud, and help investors identify genuine SEBI-registered entities.

SEBI | Investor Charter for Investment Advisers,

SEBI | Investor Charter for Research Analysts,

SEBI | Investor Charter Real Estate Investment Trusts (REITs),

SEBI | Investor Charter Infrastructure Investment Trusts (InvITs)

SEBI Updates Investor Charters for Enhanced Transparency and Investor Protection. SEBI has revised or introduced Investor Charters for Investment Advisers (IAs), Research Analysts (RAs), Real Estate Investment Trusts (REITs), and Infrastructure Investment Trusts (InvITs) to enhance investor protection, promote financial literacy, and align with platforms like SCORES 2.0 and the ODR mechanism. These entities, including their representatives and managers, must prominently display the updated charters across digital platforms, office premises, and during client onboarding or investor engagement. Additionally, all must disclose monthly grievance redressal data on their websites in a prescribed format to ensure transparency and accountability in investor servicing.

Registered Intermediaries are allowed to use 'e-KYC Setu System' of National Payments Corporation of India to perform Aadhaar based e-KYC authentication for ease of doing business

SEBI has permitted registered intermediaries to use the 'e-KYC Setu System' developed by NPCI in collaboration with UIDAI as an additional mechanism for Aadhaar-based digital KYC.

SEBI | Timelines for rebalancing of portfolios of mutual fund schemes in cases of all passive breaches

SEBI has clarified that the timelines for rebalancing of mutual fund portfolios, as prescribed under Paragraph 2.9 of the Master Circular for Mutual Funds, will apply to all types of passive breaches (those not due to omission or commission by AMCs) for actively managed schemes. These include breaches of issuer, group, or sector limits caused by factors like corporate actions or price volatility. This move ensures consistent portfolio management and investor protection.

SEBI | Extension towards Adoption and Implementation of Cybersecurity and Cyber Resilience Framework (CSCRF) for SEBI Regulated Entities (REs)

SEBI has extended the compliance deadline for its Cybersecurity and Cyber Resilience Framework (CSCRF) by two months to August 31, 2025, for all regulated entities (REs) except Market Infrastructure Institutions (MIIs), KYC Registration Agencies (KRAs), and Qualified RTAs (QRTAs).

SEBI Consultation Papers – June 2025 Highlights

June 9 – FAQs for Research Analysts

SEBI seeks comments on updated FAQs aligning with recent amendments to the Research Analysts Regulations.
Comments by: June 30

June 16 – Disclosures for SDIs

Proposes half-yearly disclosures by trustees of Securitised Debt Instruments (SDIs) to enhance transparency.
Comments by: July 8

June 17 – Accredited Investor Framework

Suggests allowing all SEBI-registered KRAs to accredit investors and provisional onboarding by AIFs.
Comments by: July 8

June 20 – AI/ML Usage Guidelines

Framework for responsible AI/ML use in securities markets, with tiered compliance and transparency norms.
Comments by: July 11

June 20 – Client Code Modifications

Allows penalty-free UCC changes for ETF Market Makers and certain institutional clients.
Comments by: July 11

June 24 – Governance of MIIs

Recommends stronger Board-level oversight at MIIs via two new Executive Director roles.
Comments by: July 11

SEBI Master Circulars - June 2025

SEBI has issued updated versions of several Master Circulars in an effort to streamline and consolidate applicable regulations. The following Master Circulars were revised:

- Master Circular for Stock Brokers,
- Master Circular for Registrars to an Issue and Share Transfer Agents,
- Master Circular for Investment Advisers,
- Master Circular for Research Analysts

SEBI Board Meeting

On June 18, 2025, SEBI held its 210th Board Meeting and approved several reforms aimed at modernising market regulations, easing compliance, and enhancing investor participation. Key Highlights:
- Relaxed IPO norms for founders and early investors
- Demat mandate extended to pre-IPO stakeholders
- Simplified QIP disclosure requirements
- Special delisting framework for PSUs
- Expanded access to the Social Stock Exchange
- Clarity for merchant bankers and debenture trustees
- Updated norms for REITs and InvITs
- New co-investment framework for Category I & II AIFs
- Revamped rules for angel funds
- Streamlined disclosures for portfolio managers
- Mandatory demat for certain corporate actions
- Eased norms for share transfers and IA/RA deposits.

SEBI | Adoption of Standardised, Validated and Exclusive UPI IDs for Payment Collection by SEBI Registered Intermediaries from Investors

SEBI has introduced a standardized UPI ID system for investor-facing intermediaries to improve payment safety and investor confidence. Intermediaries must get validated UPI IDs with a "@valid" handle linked to their bank, marked by a green triangle with a thumbs-up icon. While optional for investors, this system ensures verified payments. SEBI will also launch a "SEBI Check" tool to verify UPI IDs and bank details. Intermediaries must update contact details, educate investors, and stop using old UPI IDs within 180 days (except ongoing SIPs). Validated UPI IDs will be available from October 1, 2025.

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