Compliance Matters

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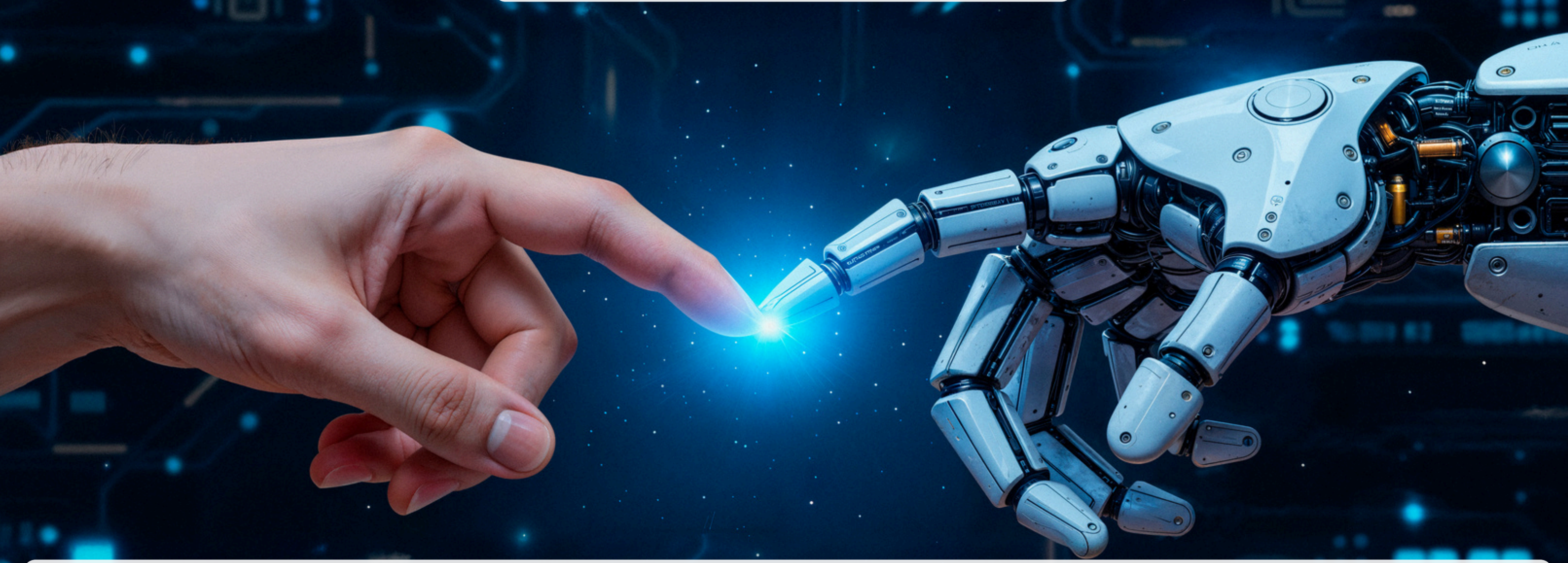
INDIA REGULATORY ROUND UP

Monthly Newsletter from Compliance Matters



"Ensuring that AI-driven decisions are ethical, unbiased, and transparent will be paramount in building a sustainable, AI-powered financial future."

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

Returns – Department of Payment and Settlement Systems – Submission in CIMS

The RBI has mandated the submission of Internet Banking Return (R065) and Mobile Banking Return (R102) on its Centralised Information Management System (CIMS) portal from the reporting period of August 2025 onwards. These returns are to be filed monthly, with submissions due by the 7th of the following month (e.g., August 2025 return by September 7, 2025). Admin Users for each reporting entity have already been created in CIMS, and they are required to generate login credentials for designated users who will file the returns.

Participation of Standalone Primary Dealers in Non-deliverable Rupee Derivative Markets

RBI has allowed Standalone Primary Dealers (SPDs) authorised as Authorised Dealer Category–III (AD Cat-III) to participate in non-deliverable derivative contracts (NDDCs) involving the Rupee with immediate effect. in addition to AD Cat-I banks operating IFSC Banking Units. The Master Direction – Risk Management and Inter-Bank Dealings has been amended accordingly. Relevant updates have been incorporated in Part-A (Section-I) and Part-C of the Master Direction. For this circular, "Authorised Persons" will now include AD Cat-I banks and SPDs authorised as AD Cat-III under FEMA, 1999.

Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025

The Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025 seeks to provide the broad principles which are required to be complied with by participants in the payment chain while using payment authentication. The main requirements in the directions are:
i) All digital payment transactions must, at a minimum, use two factors of authentication, with at least one factor being dynamic (i.e. unique per transaction) to enhance security.
ii) Payment system providers and participants (banks and non-banks) must comply with the Directions by 1 April 2026 (unless otherwise specified) for domestic transactions.
iii) Card issuers can also resort to additional checks beyond the two factor authentication based on perceived risks in the transaction.
iv) Besides Card issuers are required by 1 October 2026 to put in place a mechanism to validate non-recurring, cross-border card not present (CNP) transactions, where request for authentication is raised by an overseas merchant or overseas acquirer. Issuers are held liable to compensate customers for losses arising from non-compliance.

Special Clearing in Cheque Truncation System on October 3, 2025

RBI has announced a special clearing session in the Cheque Truncation System (CTS) on October 3, 2025 to ensure smooth transition to continuous clearing and settlement on realisation from October 4, 2025. On October 3, the schedule will include a return session (8:00–10:00 AM) for presentations of October 1, a special clearing presentation session (11:00 AM–3:00 PM), and a special return session (5:00–8:00 PM). No regular clearing sessions will be held that day, and all instruments must be processed only through special clearing. Banks must use clearing type "99" with session numbers "21" (presentation) and "22" (return); transactions with any other codes will not be attached to special clearing. Settlements for both sessions will be posted, and banks must maintain adequate balances in their settlement accounts. Sponsor banks are required to circulate this circular to their sub-members.

Reserve Bank of India (Settlement of Claims in respect of Deceased Customers of Banks) Directions, 2025

The Directions mandate that banks settle claims for deceased customers' deposit accounts, safe deposit lockers, and safe-custody articles within 15 calendar days once all requisite documents are submitted. Where an account has a registered nominee or survivorship clause, banks can release funds or grant access to locker contents by requiring only a claim form, death certificate and OVD identity/address proof —without insisting on succession certificates or indemnity bonds regardless of the amount. In absence of nomination, a simplified procedure is permitted for claims up to ₹15 lakh (or such higher limit fixed by bank), requiring minimal documentation; for higher amounts, additional legal proof (e.g., succession or heir certificates) may be required. For delays attributable to banks, compensation is payable: for deposit at interest at Bank Rate + 4% on the settlement amount;while for claims relating to locker/safe custody articles, a fixed ₹5,000 per day penalty. The Directions are to come into force by March 31, 2026 at the latest.

Reserve Bank of India (Interest Rate on Advances) (Amendment Directions), 2025

The RBI has issued the Interest Rate on Advances (Amendment) Directions, 2025, effective from October 1, 2025. These amendments revise the RBI Interest Rate on Advances Directions, 2016, the Circular on Reset of Floating Interest Rate on EMI-based Personal Loans (August 18, 2023), and related FAQs (January 10, 2025). Banks are now allowed to reduce spread components for a loan category earlier than three years, for customer retention, provided it is done on justifiable and non-discriminatory grounds in line with their policy. At the time of interest rate reset, regulated entities (REs) may offer borrowers the choice to switch from floating to fixed rates, as per their Board approved policy, which should also specify how many times such a switch can be exercised during the loan tenure. These amendments aim to enhance transparency, customer choice, and flexibility in retail loan pricing and management.

Reserve Bank of India (Lending Against Gold and Silver Collateral) – (1st Amendment) Directions, 2025

The RBI has issued the 1st Amendment to the Lending Against Gold and Silver Collateral Directions, 2025, effective October 1, 2025 (for lenders who have already adopted the Directions). As per the changes, lenders cannot give loans for buying gold in any form , silver, or financial products backed by them, nor can they lend against primary gold or silver. However, Scheduled Commercial Banks and Tier 3/4 Urban Cooperative Banks can give working capital loans to businesses that use gold or silver as raw material in manufacturing/processing activity, provided it is not for investment or speculation.. These amendments aim to restrict speculative lending while allowing genuine business use of gold and silver.

Reserve Bank of India (Basel III Capital Regulations - Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital – Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas) Directions, 2025

The Basel III Capital Regulations – Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital – Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas) Directions, 2025, effective October 1, 2025 which supersede the earlier circular dated October 4, 2021,allow banks to include PDIs issued in foreign currency or rupee denominated bonds overseas as part of Additional Tier 1 (AT1) capital, subject to a maximum cap of 1.5% of Risk Weighted Assets (RWAs) based on the latest available financial statements (audited or limited review). This revision replaces the earlier limit, streamlining capital recognition norms for PDIs in line with Basel III requirements.

Penalty corner

- **RBI**

Imposed a monetary penalty of ₹21 lakh on **PhonePe Limited** (formerly known as PhonePe Private Limited) for non-compliance with certain directions issued by RBI on 'Prepaid Payment Instruments (PPIs)'. The end of the day balance in the escrow account of the company was less than the value of outstanding PPIs and payments due to merchants on certain days and the company did not report shortfall in the said escrow account to RBI immediately.

Imposed a monetary penalty of ₹2.70 lakh on **Muthoot FinCorp Limited** for non-compliance with directions issued by RBI on 'Internal Ombudsman'. The company failed to establish a system of auto escalation of complaints that were partly or wholly rejected by the company's internal grievance redress mechanism to its Internal Ombudsman.

Imposed a monetary penalty of ₹31.80 lakh on **Indian Overseas Bank** for non-compliance with certain directions issued by RBI on 'Priority Sector Lending (PSL) – Targets and Classification'. The bank collected loan related charges in certain PSL accounts, each having sanctioned loan amount upto ₹25,000/-.

- **Other Regulators**

The Dubai Financial Services Authority (DFSA) has barred **HDFC Bank's** Dubai International Financial Centre (DIFC) branch from onboarding new clients or conducting new business due to non-compliance with regulatory requirements. The action stems from lapses in handling clients not onboarded by the DIFC branch and deficiencies in advisory and credit arrangement practices.

SEBI | Framework for Intraday Position Limits Monitoring for Equity Index Derivatives

SEBI introduced intraday position limits in equity index options to enhance market stability. Effective October 1, 2025, entities will have ₹5,000 crore net and ₹10,000 crore gross FutEq limits, monitored through random intraday snapshots. Expiry-day breaches will attract penalties/additional deposits from December 6, 2025. Exchanges must issue an SOP and implement monitoring systems.

SEBI | Streamlining of the process for surrender of (Know Your Client) Registration Agency (KRA) registration

SEBI has introduced a streamlined framework for the surrender of KRA registration (whether voluntary or involuntary) to ensure an orderly and secure wind-down of operations. Under the new guidelines, KRAs surrendering their registration must transfer all KYC records to another registered KRA without any data loss, ensuring seamless client service continuity. A Standard Operating Procedure (SOP), approved by the KRA's Board and uniformly implemented across all KRAs, will define the process for record transfer and service continuity. An Oversight Committee will monitor the winding-down process. KRAs are required to publish their SOPs within 90 days and review them periodically thereafter.

SEBI | Framework for AIFs to make co-investment within the AIF structure under SEBI (Alternative Investment Funds) Regulations, 2012

SEBI has permitted Category I & II AIFs to offer co-investment through a new Co-investment Scheme (CIV scheme) under AIF Regulations, in addition to the PMS route. Each CIV scheme must maintain separate accounts, ensure ring-fencing of assets, and comply with limits—co-investment by an investor cannot exceed

3x their AIF commitment, except for DFIs, sovereign funds, and government entities. CIVs cannot borrow, must follow pro-rata rights, cost-sharing, and adhere to standards set by the Standard Setting Forum of AIFs.

SEBI | Ease of regulatory compliances for FPIs investing only in Government Securities

SEBI has introduced a simplified compliance framework for Foreign Portfolio Investors (FPIs) investing exclusively in Government Securities (GS-FPIs). GS-FPIs are exempt from submitting investor group details, change declarations, and certain information updates. They must continue to pay fees to DDPs and report material changes within 30 days. A transition mechanism allows conversion between regular FPIs and GS-FPIs, requiring complete divestment of non-Government Securities before reclassification. KYC reviews will align with RBI's bank account norms, and market intermediaries must update systems as per SOPs to be issued by CDSSF.

SEBI | Revised regulatory framework for Angel Funds under AIF Regulations

SEBI has revised norms for Angel Funds under the AIF Regulations, effective September 9, 2025. Funds can now raise capital only from Accredited Investors. Existing funds have time till September 8, 2026 to transition, with up to 200 non-accredited investors allowed during this period. Investments must be made at the fund level, with allocation methodology disclosed in the PPM. Follow-on investments are capped at ₹25 crore with a 1-year lock-in (6 months for third-party sales). Angel Funds must also meet overseas investment, benchmarking, reporting, and audit requirements if investments exceed ₹100 crore.

SEBI | Framework on Social Stock Exchange

SEBI revised the SSE framework following ICDR and LODR amendments (Sept 8–9, 2025). Updates include eligibility for NPO registration and enhanced annual disclosures on governance, financials, donors, and programs. NPOs and Social Enterprises must file an Annual Impact Report (AIR) by Oct 31 or the ITR due date, with assessment by Social Impact Assessors, where applicable.

SEBI | Ease of doing investment - Smooth transmission of securities from Nominee to Legal Heir

SEBI has simplified the transmission of securities from nominee to legal heir. Earlier, nominees faced inconvenience as transfers were sometimes taxed as capital gains despite being exempt under Section 47(iii) of the Income Tax Act. To resolve this, SEBI, in consultation with CBDT, has mandated use of a standard reason code "TLH" (Transmission to Legal Heirs) by reporting entities when filing with CBDT. Procedural requirements under LODR Regulations and RTA Master Circular remain unchanged. RTAs, listed issuers, depositories, and DPs must implement system changes by January 1, 2026.

SEBI | Compliance Guidelines for Digital Accessibility Circular 'Rights of Persons with Disabilities Act, 2016 and rules made thereunder- mandatory compliance by all Regulated Entities' dated July 31, 2025 (Circular No. SEBI/HO/ITD-1/ITD_VIAP/P/CIR/2025/111)

SEBI, through Circular No. SEBI/HO/ITD-1/ITD_VIAP/P/CIR/2025/111 dated July 31, 2025, has mandated all regulated entities to ensure compliance with the Rights of Persons with Disabilities Act, 2016 and related rules, focusing on digital accessibility. The detailed compliance guidelines are provided in Annexure-A of the circular.

SEBI | Extension of timeline for implementation of SEBI Circular dated February 04, 2025 on 'Safer participation of retail investors in Algorithmic trading'

SEBI has extended the implementation timeline of its Retail Algo Trading Framework (circular dated February 04, 2025). While brokers ready with systems must go live from October 01, 2025, a glide path is provided: (i) At least one retail algo product/strategy registered by October 31, 2025; (ii) Registration of products and few strategies completed by November 30, 2025; (iii) Participation in at least one mock session by January 03, 2026. Non-compliance will bar brokers from onboarding new retail algo clients from January 05, 2026. Full implementation for all brokers is April 01, 2026.

SEBI Board Meeting

SEBI approved key reforms to enhance market access, investor participation, and operational efficiency:

- Minimum Public Shareholding (MPS): Relaxed norms for large companies to ease listings.
- Anchor Investors & FPIs: Broadened eligibility and simplified onboarding.
- AIFs: Introduction of co-investment schemes.
- REITs/InvITs: Equity status for REITs to attract institutional investors.
- Mutual Funds: Exit loads reduced to 3%.
- Related Party Transactions & MIIs: Scale-based thresholds and regulatory updates for transparency and robustness.

These measures aim to modernize markets and attract both domestic and foreign investors.

Consultation on draft circular - Guidelines with respect to reporting of value of units of Alternative Investment Funds (AIFs) to Depositories

SEBI has issued a draft circular for public comments on reporting AIF unit NAVs to Depositories. AIFs/RTAs must upload NAVs within 15 days of valuation; for existing schemes, the latest NAV must be uploaded within 45 days. Depositories must update systems and bye-laws, while trustees/sponsors must reflect compliance in the Compliance Test Report. Public comments are open until Oct 9, 2025.

Consultation Paper on Review of Framework to address the 'technical glitches' in Stock Brokers' Electronic Trading Systems'

SEBI released a consultation paper revising the framework for technical glitches in brokers' trading systems (originally issued Nov 2022). Key proposals include narrowing the definition of technical glitches, applicability only to brokers with >10,000 clients, simplified reporting via a common platform, and flexible timelines considering holidays and practical constraints.