



VINOD KOTHARI CONSULTANTS

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PAN No: AABCV0218P

GSTIN Number: 19AABCV0218P1Z2

Corporate Identity Number: U74140WB1995PTC068742

Udyam Registration Number – UDYAM-WB-10-0015486

To

The Chief General Manager

Department of Regulation

Reserve Bank of India

Dear Sir/ Madam,

We take the liberty of placing before the Reserve Bank of India certain suggestions relating to the [RBI \(Commercial Banks - Credit Risk Management\) Directions, 2025 \(“CRM Directions”\)](#) as amended *vide* the [RBI \(Commercial Banks - Credit Risk Management\) - Amendment Directions, 2026 \(“Amendment Directions”\)](#)

Our submissions have been provided under **Annexure A** below. These submissions have been structured in the form of specific issue statements accompanied by possible solutions and are based on our wide experience as consultants to various banking companies. Our suggestions draw from our continuous engagement with regulatory, compliance, and implementation challenges encountered by banks in the course of their operations.

These submissions aim to address broader structural and implementation-related considerations that may merit attention from a system-wide perspective. Our objective in making this submission is to contribute constructively to the evolution of a regulatory framework that achieves clarity, proportionality, and ease of compliance, while fully preserving prudential discipline and supervisory oversight. We would be grateful for an opportunity to provide any further clarifications or engage in discussions, should the RBI consider it useful.

Thanks and regards,

For and on behalf of Vinod Kothari Consultants Pvt. Ltd.



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Annexure - A

1. Non-availability of certain exemptions from statutory restrictions under Section 20 of Banking Regulation Act, 1949 (“BR Act”)

Chapter IV of the CRM Directions deals with the Statutory Restrictions on certain “Loans and Advances” and Para 16 to 19 (prior to Amendment Directions) specifies exemptions from the applicability of such statutory restrictions in some cases. Pursuant to the Amendment Directions, Para 16 to 19 stand omitted, replaced by a new para 15A. This has resulted in some inconsistencies, resulting in prohibiting certain types of loans and advances that were permitted prior to the Amendment Directions. The rationale for such omission is not clear.

1.1. Loans or advances against Government securities, life insurance policies or fixed deposits

Provisions of law

Para 16(1) of the existing CRM Directions (corresponding to Para 2.1.2.3. of the Erstwhile Master Circular - Loans and Advances) provides exemption from the applicability of Section 20(1)(b) of BR Act in case of *loans or advances against Government Securities, life insurance policies or fixed deposit*. The exemption is available to all categories of persons covered by the prohibitions u/s 20(1)(b), viz.,

- a. Directors of the bank
- b. Firm in which directors are interested as partner, manager, employee or guarantor
- c. Company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest
- d. Subsidiary or holding company of such company

Para 16 is substituted by Para 15A. Para 15A(2)(iii) of the Amendment Directions provides an exemption in case of: *Loans and advances to a director against government securities, life insurance policies or fixed deposit,....*

Also, in terms of the RBI Master Circular, there was a blanket exemption for loans and advances against fixed and other deposits, government securities as well as life insurance policies with respect to relatives of directors, firms/companies in which such relatives are interested,



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directors of other banks and their relatives, etc. [Refer Paras 2.2.1.4 and 2.2.1.9 of the said RBI Circular].

While Para 42I of the Amended Directions provide exemptions from threshold-based approval requirements in respect of (i) *credit facilities fully secured by cash or liquid securities and in accordance to prescribed LTV and valuation norms for such securities* and (ii) *Interbank loans*, however, as clause (i) is open to interpretation, it is not clear whether the earlier exemption under paras 2.2.1.4. and 2.2.1.9. would still be applicable and available to any related party.

42I. Loans to related parties, which are not prohibited in terms of provisions of Chapter IV or this Chapter of these Directions, or which have been permitted under power exercised by the Reserve Bank under clause (a) of the Explanation under Section 20(4) of the Banking Regulation Act, 1949, except (i) credit facilities fully secured by cash or liquid securities and in accordance to prescribed LTV and valuation norms for such securities and (ii) Interbank loans,

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Problem Statement

Pursuant to the Amendment Directions, the exemption will be limited to only persons covered under point (a) (that is, only directors of the bank), the exemptions get withdrawn from persons covered under point (b) to (d) above.

Further, unlike in case of a sweeping exemption for loans and advances against FDs, G-secs and insurance policies as under the RBI Circular; in terms of Amended CRM Directions, such loans to a related party or even to a reciprocally related person may still require threshold-based approvals if the facility does not qualify as “credit facility fully secured by cash or liquid securities”.

Having said that, in view of the nature of assets against which such loans are secured, no regulatory purpose may be served by withdrawing or limiting such exemptions. In fact, it sounds counter-intuitive that the exemption is available to the director of the bank itself but not to others.

Relief Sought

A blanket exclusion may be provided for such loans and advances which are backed by FDs, G-secs, insurance policies, or alike. Consequently, if such loans are given to directors or any related



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party of the Bank, no approvals would be required under CRM Directions.

1.2. Call loans made by banking companies to one another

Provisions of law

Para 16(4) of the existing CRM Directions (corresponding to Para 2.1.2.3. of the Erstwhile Master Circular - Loans and Advances) provides exemptions to *call loans made by banking companies to one another*. Similar exemption has not been retained in the Amendment Directions.

Problem Statement

Inter-bank call loans are a common business practice, to meet short-term liquidity mismatches. Such loans do not pose any conflicts of interests, and are integral to the banking operations. Pursuant to the Amendment Directions, the permissibility of such loans, for banks covered by the restrictions of section 20(1)(b) of the BR Act, stands withdrawn.

Further, it may be noted that the exemption for interbank loans under Para 42I of the Amended Directions is only for such transactions which are otherwise permissible under the CRM Directions. As there is no exemption for interbank loans under para 15A, from the operation of section 20 of BR Act or Para 14 of CRM Directions, the benefit under Para 42I will not be available for persons covered under section 20(1)(b) of the BR Act.

Relief Sought

We recommend reinstatement of exemptions for call loans/interbank loans between banking companies in Para 15A of the Amendment Directions.

1.3. Non-fund based facilities

Provisions of law

Para 16(5) read with Para 18 of the existing CRM Directions (corresponding to Para 2.1.2.3. and Para 2.1.2.4. of the Erstwhile Master Circular - Loans and Advances) provide exemptions with respect to non-fund based facilities subject to certain conditions:

...facilities like bills purchased / discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund



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based facilities like acceptance / co- acceptance of bills, opening of LCs and issue of guarantees, purchase of debentures from third parties, etc.;

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In view of the above, while extending non-fund-based facilities such as guarantees, LCs, acceptance on behalf of directors and the companies / firms in which the directors are interested; it shall be ensured that:

(1) adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met by the openers of LCs, or acceptors, or guarantors out of their own resources,

(2) the bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and

(3) no liability would devolve on the bank on account of LCs acceptances

Para 15A(2)(v) of the Amendment Directions contains limited exemptions for non-fund based facilities, subject to the same being fully secured by cash collateral:

Non-Fund Based (NFB) facility on behalf of a director or his/her related party, provided that all such facilities shall be fully secured by cash collateral of equivalent or higher value.

Provisions of law

Pursuant to the Amendment Directions, non-fund based facilities are permitted only if fully secured by cash collateral. Further, the exemptions are in relation to (a) a director, and (b) his/ her related party. This leads to the following inconsistencies:

a. Cash collateral requirements

Banks, in their usual course of business, enter into non-funded facilities, such as SBLC/ guarantee arrangements and other such non-funded facilities with other banks for their customers. Such facilities are backed by counter-guarantees and do not involve a cash collateral.

b. Meaning of “Related parties” of a director

- The exemption under the Amendment Directions refers to a “director or **his/ her** related party”.



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- The term “related party”, in the context of a director, is not defined under the Amendment Directions, and hence, remains open to varying interpretations.
- In case the term has to be read in conjunction with the persons covered under section 20(1)(b) of the BR Act, the same requires an explicit reference in the Directions.

Relief Sought

Since the restrictions pertain to persons covered under section 20 of the BR Act, the exemptions may be aligned to refer to such persons. Further, instead of mandating cash collateral, the conditions as existing in case of non-fund based facilities may be restated:

Facilities like bills purchased / discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance / co- acceptance of bills, opening of LCs and issue of guarantees, purchase of debentures from third parties, etc. ~~Non-Fund Based (NFB) facility on behalf of a director or his/her related party, provided that all such facilities shall be fully secured by cash collateral of equivalent or higher value.~~ directors and the companies / firms in which the directors are interested as per section 20(1)(b) of the Banking Regulation Act, 1949; subject to the following conditions:

(1) adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met by the openers of LCs, or acceptors, or guarantors out of their own resources,

(2) the bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and

(3) no liability would devolve on the bank on account of LCs acceptances

2. Absolute prohibition on exposures to upstream entities

Provision of law

Para 42H of the Amendment Directions puts restrictions on any form of exposures by the bank on certain entities in the following manner:

42H. In addition to the restrictions placed on loans and advances by a bank to its directors and the companies in which its directors are interested under Section 20 of the Banking Regulation Act, 1949, a bank shall not have any exposure (including investments in the



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equity / debt capital instruments) to its promoters and their relatives; shareholders with shareholding of 10 per cent or more in the paid-up equity capital of the bank; as also the entities in which they (promoters, their relatives and shareholders as stated above) have significant influence or control (as defined under Accounting Standards Ind AS 28 and Ind AS 110).

Provided that nothing in paragraph 42H above shall apply in cases where a financial institution, a scheduled commercial bank, a foreign portfolio investor or a mutual fund holds ten per cent or more of the equity share capital of the bank as non-strategic investment and without any control of the bank.

Problem Statement

Pursuant to the aforesaid Para, a bank is prohibited from taking any exposures on the following:

- Promoters of the bank and their relatives;
- Shareholders with shareholding of 10 per cent or more in the paid-up equity capital of the bank;
- Entities in which they (promoters, their relatives and shareholders as stated above) have significant influence or control (as defined under Ind AS 28 and Ind AS 110)

An exception has been made for the following categories of investors, holding investments as non-strategic investment and without any control. The exception has been worded in a manner that indicates that the exception is available only if both the conditions are satisfied on a cumulative basis, viz., “non-strategic investment” and “without any control”.

- (a) A bank may hold more than 10% shareholding in another bank, without any control. In such cases, the aforesaid prohibition makes it impossible for any form of inter-bank transactions between the two, in view of the absolute prohibition on any form of exposures. This would hinder usual banking transactions, in the nature of short-term interbank lending, non-funded facilities etc. as well.
- (b) Further, in view of the indirect control/ significant influence, the prohibitions may also extend to the downstream/ controlled entities of the bank. Illustration: A person holding control over the bank, may be considered as indirectly holding control/ significant influence over the subsidiary/ associate of such bank, pursuant to the direct control over the bank.

Relief Sought



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Further, an investment may be categorised as strategic or non-strategic depending on the intent of the investor, the investee bank does not have any influence on the same. The assessment of an investment as non-strategic is subjective, and hence, we recommend that the exceptions be available in cases where the investments are held without any control. The condition w.r.t. non-strategic investment may be omitted. Further, we recommend that the exemptions available under Para 15A of the Amendment Directions be extended to such persons as well.

Further, clarification may be provided in respect of downstream entities of the bank under indirect control of the promoter/ major shareholder entity.

*42H. In addition to the restrictions placed on loans and advances by a bank to its directors and the companies in which its directors are interested under Section 20 of the Banking Regulation Act, 1949, a bank shall not have any exposure (including investments in the equity / debt capital instruments, **except for permissible exposures in terms of Para 15A of these Directions**) to its promoters and their relatives; shareholders with shareholding of 10 per cent or more in the paid-up equity capital of the bank; as also the entities in which they (promoters, their relatives and shareholders as stated above) have significant influence or control (as defined under Accounting Standards Ind AS 28 and Ind AS 110).*

*Provided that nothing in paragraph 42H above shall apply in cases where a financial institution, a scheduled commercial bank, a foreign portfolio investor or a mutual fund holds ten per cent or more of the equity share capital of the bank **as non-strategic investment and** without any control of the bank.*

Provided further that nothing in paragraph 42H above shall apply to the associates or subsidiaries of the bank.

3. Control missing over lending to directors of subsidiaries

Provision of law

Para 24 of the existing CRM Directions requires prior approval or knowledge of the board of the bank with respect to granting of loans and advances to the *Directors of Subsidiaries / Trustees of Mutual Funds / Venture Capital Funds set up by the financing banks or other banks.*



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The Amendment Directions refer to the *Directors of Subsidiaries / Trustees of Mutual Funds / Venture Capital Funds set up by other banks*, within the meaning of Reciprocally Related Persons and their Related Parties. No similar provision for entities set up by the financing bank itself.

Problem Statement

This seems to be an inadvertent omission, however, might be employed in a manner detrimental to the intent of the law.

Relief Sought

We recommend that the Directors of Subsidiaries / Trustees of Mutual Funds / Venture Capital Funds set up by the financing bank be included within the meaning of Related Party, so as to extend necessary controls over the same.