



cyril amarchand mangaldas
ahead of the curve



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It gives us immense pleasure to share with you the tenth issue of the *Financial Institutions Group (FIG) Bulletin*, a half yearly newsletter produced by our FIG practice.

As India's fintech regulatory landscape continues to evolve, this edition highlights key updates from the regulators in India's financial ecosystem.

Reserve Bank of India (**RBI**) has revised the framework for compounding contraventions under foreign exchange laws, and amended KYC norms to ease operational challenges and improve customer access. Securities and Exchange Board of India (**SEBI**) has strengthened governance standards for listed entities, extended relaxations on disclosure requirements, and provided more time for adoption of its Cybersecurity and Cyber Resilience Framework. Insurance Regulatory and Development Authority of India (**IRDAI**) continues to drive reforms focused on policyholder protection, transparency, and operational efficiency. International Financial Services Centres Authority (**IFSCA**) has updated governance and disclosure norms for finance companies and introduced a new framework for Global / Regional Corporate Treasury Centres.

Together, these measures reflect regulators' collective intent to enhance transparency, safeguard stability, and support sustainable growth across the financial sector.

We hope you enjoy reading this newsletter. Please feel free to send your comments, feedback and suggestions to cam.publications@cyrilshroff.com

Regards,

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RBI Regulatory Updates

1. Master Directions-Compounding of Contraventions under FEMA, 1999

Background

RBI notified the Master Directions - Compounding of Contraventions under FEMA, 1999 (**Compounding Master Directions**), on April 22, 2025, to replace the erstwhile Master Direction dated May 24, 2022. The Compounding Master Directions consolidate the existing instructions under the Foreign Exchange (**Compounding Proceedings**) Rules, 2024 (**Compounding Rules**), as notified by the Government of India on September 12, 2024. These directions provide comprehensive guidelines for the process of compounding contraventions under FEMA.

Key Aspects

The key changes pertain to *inter alia*:

- i. jurisdiction of regional offices,
- ii. ineligible cases,
- iii. payments process of compounding orders, and
- iv. safeguard that in certain exceptional circumstances, the RBI compounding authority may exercise its discretion and cap the maximum penalty at INR 2 lakh per contravention, even if a higher amount is calculated under the standard matrix.

Conclusion

The Compounding Master Directions streamline the process of resolving foreign exchange violations, aligning with the newly notified Compounding Rules, enhancing clarity and operational efficiency. This can be viewed as a progressive step that reduces compliance burden and promotes voluntary disclosures.

2. Processing of Regulatory Authorisations/ Licenses/ Approvals through PRAVAAH Portal

The RBI has mandated all regulated entities to submit applications for regulatory authorisations, licenses, and approvals exclusively through the Platform for

Regulatory Application, Validation and Authorisation (**PRAVAAH**) portal, starting May 1, 2025.

To ensure uniformity and efficiency, the RBI has now mandated all scheduled commercial banks, cooperative banks, Non-Banking Financial Companies (**NBFCs**), payment system operators, credit information companies, and other regulated entities to use PRAVAAH for all such submissions.

The PRAVAAH portal offers standardised application forms, tracking features, and user support resources, including manuals, Frequently Asked Questions (**FAQs**), and instructional videos, to improve transparency, reduce processing time, and enhance regulatory compliance across the financial ecosystem.

Conclusion

The PRAVAAH portal will streamline regulatory processes, promote uniformity, and strengthen compliance, thereby fostering greater efficiency, transparency, and accountability across India's financial sector in alignment with RBI's vision.

3. Policy Statement: Framework for Formulation of Regulations

Background

The RBI notified the 'Policy Statement: Framework for Formulation of Regulations', which lays down the principles for formulating and amending any RBI regulation, on May 7, 2025.

Key Aspects

The codified process for formulating any regulation is as follows:

- i. *Public Consultation*:
 - a. The RBI will publish the draft of the regulation on the RBI website and provide at least 21 (twenty one) days for public comments.

- b. If the RBI decides to issue the final regulation in a form that differs significantly from the draft that was issued for public comments, it may repeat the process.
- c. The final regulation will be published promptly after receipt of approval from the competent authority, and the date of enforcement will be specified therein.
- d. The RBI will also explore additional mechanisms for engaging with stakeholders, such as publishing a discussion paper, before publishing the draft regulation.
- ii. *Impact Analysis:* Before finalising the regulation, the RBI will conduct an impact analysis of the regulation as feasible.
- iii. *Amendment:* Any amendment to a regulation will also follow the public consultation and impact analysis process mentioned above.
- iv. *Review:* The RBI will undertake periodic reviews of the regulations and update, amend or repeal regulations as necessary.

The abovementioned process does not apply to internal, administrative or organisational matters, procedural matters that do not have a substantive impact on any regulation, or regulations issued to specific entities that are not general in nature.

Further, the RBI retains the discretion to waive or suitably modify the above process in circumstances where confidentiality must be upheld, the process may undermine the intent or objectives of the proposed regulation, considerations of public interest necessitate expediency, or if urgent intervention is required.

Conclusion

This policy would be relevant to all stakeholders in the ecosystem, as it establishes a roadmap that must be followed before regulations are notified by the RBI.

4. Investments by Foreign Portfolio Investors in Corporate Debt Securities through the General Route – Relaxations

The RBI on May 8, 2025, eased the rules for Foreign Portfolio Investors (**FPIs**) investing in corporate debt securities via the general investment route. This notification amends the Foreign Exchange Management (Debt Instruments) Regulations, 2019, and the RBI (Non-resident Investment in Debt Instruments) Directions, 2025.

Key changes include the withdrawal of short-term investment limit and concentration limit requirements for FPIs. Previously, FPIs were restricted from investing more than 30% of their total corporate debt portfolio in instruments with residual maturity of less than 1 (one) year. Additionally, the concentration limit capped FPI exposure at 15% (for long-term FPIs) and 10% (for others) of the prevailing investment limit in corporate debt securities.

Conclusion

The above-mentioned constraints have now been removed, allowing FPIs greater flexibility in portfolio construction and risk management. The relaxation is expected to enhance liquidity in the corporate bond market, attract more foreign capital, and support domestic credit growth.

5. RBI (Digital Lending) Directions, 2025

The RBI (Digital Lending) Directions, 2025 (**DL Directions**), on May 8, 2025, notified a compilation of instructions, guidelines and regulations applicable to digital lending, including restrictions on data transfer, data storage and handling of credit funds.

Key Aspects

Certain key obligations for regulated entities involved in digital lending are:

- i. any increase in credit limit must be undertaken only after receipt of express request from the borrower;

- ii. standardised disclosure norms for loan aggregation platforms;
- iii. public directory of regulated digital lending apps;
- iv. providing a digital view of all loan offers matching borrower request, without pushing or promoting a particular lender's product; and
- v. offshore outsourcing partners of lenders can process data outside India, provided the data is brought back within 24 hours of processing and is deleted from servers outside India.

Conclusion

The DL Directions consolidate prior guidance and introduce new mandates to enhance transparency and ensure consumer protection. These measures aim to relax regulatory obligations and improve borrower trust.

6. RBI (Lending Against Gold and Silver Collateral) Directions, 2025

Background

The RBI, on June 6, 2025, issued a new comprehensive framework for RBI (Lending Against Gold and Silver Collateral) Directions, 2025 (**Lending Directions**). While the RBI has restricted lending against primary gold, such as gold bullion, due to the broader macro-prudential concerns, and the speculative and non-productive nature of gold; regulated entities (**REs**) have been permitted to lend against collateral security of gold jewellery, ornaments and coins for meeting short-term financing needs of borrowers. This has been done to move towards a more principle-based and harmonised regulatory framework and address possible prudential and conduct-related gaps across Res.

Key Aspects

- i. **Expanded Scope:** The Lending Directions cover lending against both gold and silver collateral for the first time. Eligible collateral includes jewellery, ornaments, and specified coins. Loans against

primary gold or silver bullion, or against financial assets such as gold/ silver Exchange-Traded Funds (**ETFs**) are strictly prohibited.

- ii. **Restrictions and Ceilings:** The RBI has established specific restrictions and ceilings on loans against gold and silver collateral, as mentioned below. These measures aim to ensure clear ownership, prevent misuse, and manage risks.
 - a. **Prohibited Collateral:** Lenders are explicitly forbidden from granting loans against primary gold or silver or financial assets backed by them, including units of ETFs and mutual funds.
 - b. **Ownership and Monitoring:** Lenders must ensure the rightful ownership of the collateral by obtaining a declaration from the borrower. Additionally, multiple or frequent loans to a single borrower must be closely monitored, especially if it exceeds the pre-defined threshold under the Anti-Money Laundering (**AML**) framework.
 - c. **No Re-Pledging:** Lenders cannot avail loans by re-pledging the gold or silver collateral that their own borrowers have pledged to them. They are also prohibited from extending loans to other entities using the collateral that has been pledged to those entities by their borrowers.
 - d. **Tenor and Weight Caps:** The tenor for bullet repayment consumption loans is capped at 12 months. Furthermore, there are strict aggregate weight ceilings for all loans to a single borrower:
 - ▮ Gold Ornaments: 1 kilogram.
 - ▮ Silver Ornaments: 10 kilograms.
 - ▮ Gold Coins: 50 grams.
 - ▮ Silver Coins: 500 grams.
- iii. **Tiered Loan-to-Value (LTV) Ratios:** To ensure credit discipline and prevent over-leveraging, a tiered LTV structure has been introduced, which must be maintained throughout the loan's tenure:

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