CNK & Associates LLP
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Quarterly Insights
April 2025

FEMA and RBI

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The Foreign Exchange Management Act, 1999 (FEMA)

Master Direction - Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025

Notification No. RBI/2024-25/126 dated 7th January 2025

The Reserve Bank has issued this direction in its efforts to simplify regulatory frameworks and enhance transparency are set to significantly encourage foreign investment, especially in long-term and sustainable instruments. The primary objective of these directions is to attract foreign investment while maintaining financial stability and ensuring transparency and regulation in investment practices.

These directions are framed for investments to be made by Foreign Portfolio Investors (FPI), Non-Resident Indians (NRI), and Overseas Citizens of India (OCI) in debt instrument space. And with this objective it has introduced multiple routes by which a non-resident can invest in Indian debt instruments. These include the General Route, the Voluntary Retention Route (VRR), the Fully Accessible Route (FAR), and the Sovereign Green Bonds scheme.

Salient features include the following:

- **General Route:** Under this route, investments can be made in Government securities and corporate debt securities by FPIs subject to specified investment limits and macro-prudential limits as under:
  1. 6% of outstanding stock of Central Government securities other than those included as 'specified' securities under the Fully Accessible Route.
  2. 2% of the outstanding stock of State Government securities.
  3. 15% of the outstanding stock of corporate debt securities.
- **Voluntary Retention Route (VRR)**: Under this route investments can be made in Government securities and corporate debt securities free of certain macro-prudential limits applicable to FPI under the General Route, by FPIs that commit to remain invested for a stipulated retention period of at least 3 years; or as announced by RBI. Presently, the total investment under this route has been capped at ₹2.5 lakh crore.
- **Fully Accessible Route (FAR):** Under FAR, non-resident investors (including Foreign Portfolio Investors or FPIs) can invest in specified government securities without facing any restrictions or ceilings on the amount they can invest. This is unlike other routes, where investment is subject to certain limits.
- **Sovereign Green Bonds:** It offers long-term investment opportunities for both domestic and international investors looking to support green initiatives while earning stable returns. These bonds are also eligible for investment in India's International Financial Services Centre (IFSC), which allows global investors easier access and participation through a regulated financial hub.

One needs to ensure that it abides by the definition of eligible investor, eligible investments and the investment limits prescribed under various routes by the RBI in the said direction.

Foreign Exchange Management (Mode of Payment and Reporting of Non- Debt Instruments) (3rd Amendment) Regulations, 2025

Notification No. FEMA 395(3)/2025-RB dated 14th January 2025

The RBI with the intent to provide ease of doing business in India has expanded the scope of 'mode of payment' which earlier only allowed the inward remittance through banking channels or out of funds held in NRE/ FCNR(B)/ Escrow account, to now include the inward remittance from abroad through *'banking channels or out of funds held in any repatriable foreign currency or Rupee account and/ or a Special Non-Resident Rupee **(SNRR)** account maintained in accordance with the Foreign Exchange Management (Deposit) Regulations, 2016'.*

The Banking channels has also been defined to include any rupee Vostro accounts (including Special

Rupee Vostro Accounts) permitted to be held by a person resident outside India as per the FEM Deposit Regulations.

Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) (5th Amendment) Regulations, 2025

Notification No. FEMA 10(R)(5)/2025 RB dated 14th January 2025

The above notification has introduced a new sub-regulation (CA) under regulation 5 for exporters as under:

'A person resident in India, being an exporter, may open, hold and maintain a Foreign Currency Account with a bank outside India, for realisation of full export value and advance remittance received by the exporter towards export of goods or services. Funds in this account may be utilised by the exporter for paying for its imports into India or repatriated into India within a period not exceeding the end of the next month from the date of receipt of the funds after adjusting for forward commitments, provided that the realisation and repatriation requirements as specified in Foreign Exchange Management (Export of Goods and Services) Regulations, 2015'.

Foreign Exchange Management (Deposit) (5th Amendment) Regulations, 2025

Notification No. FEMA 5(R)(5)/2025-RB dated 14th January 2025

The above notification has brought out the following amendments:

- It has substituted the primary purpose of opening SNRR account, which earlier allowed opening of SNRR A/c for any bonafide business purpose under FEMA to now allow opening of the said account for putting through permissible current and capital account transactions with a person resident in India in accordance with the Rules and0020Regulations framed under the Act, and for putting through any transaction with a person resident outside India.
- The SNRR A/c can now also be opened with the overseas branch of an authorised dealer in India, which earlier only allowed to open it with authorised dealer in India.
- It has also clarified that any business unit is set up in IFSC can open an SNRR account with a regular bank in India outside the IFSC to handle its business activities related to areas outside the IFSC.

The Reserve Bank of India (RBI)

RBI (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 - Amendment

Notification No. RBI/2024-25/116 dated 17th February 2025

As per the aforesaid notifications, RBI (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 issued on 21st September 2023 has been amended.

As per the amendment, investments made by All India Financial Institutions **(AIFIs)**, as per their statutory mandates, in long-term bonds and debentures (i.e., having minimum residual maturity of 3 years at the time of investment) issued by non-financial entities should not be accounted for the purpose of the ceiling of 25% applicable to investments included under Held to Maturity (HTM) category.

This circular will be applicable to the AIFIs regulated by the RBI, i.e., the Export-Import Bank of India (EXIM Bank), the National Bank for Agriculture and Rural Development (NABARD), the National Bank for Financing Infrastructure and Development (NaBFID), the National Housing Bank (NHB) and the Small Industries Development Bank of India (SIDBI).

These instructions will come into force with effect from 1st April 2025.

Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021: Clarifications

Notification No. RBI/2024-25/126 dated 20th March 2025

Based on queries and suggestions received from banks and Indian Banks' Association (IBA) on certain aspects of disclosures in the Notes to Accounts to the Financial Statements **(FSs)** as well as on the Notes and Instructions for compilation of Balance Sheet, the RBI has updated Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021.

The RBI has issued the following clarifications:

- Lien marked deposits will continue to be classified under Schedule 3: Deposits with suitable disclosures.
- Advances, to the extent they are covered by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC), which are backed by explicit Central Government Guarantee, in terms of Master Circular Basel III Capital Regulations dated 1st April 2024, will be disclosed under Schedule 9 (B) (ii) i.e. 'Advances Covered by Bank/Government Guarantee'.
- Disclosures on repo/ reverse repo transactions will be done in market value terms as well as face value terms.

These instructions are applicable to all commercial and cooperative banks for preparation of FSs for the financial year **(FY)** ending 31st March 2025 and onwards.

Amortisation of additional pension liability - Implementation of Pension Scheme in Regional Rural Banks with effect from 1st November 1993 - Prudential Regulatory Treatment

Notification No. RBI/2024-2025/127 dated 20th March 2025

The Regional Rural Banks **(RRBs)** were earlier permitted to amortise their pension liability on account of RRB (Employee) Pension Scheme 2018 over a period of 5 years, beginning with FY ending 31st March 2019. RRBs are now required to implement the pension scheme with effect from 1st November 1993. However, in view of the difficulties expressed in absorbing the increased liability in a single year, it has been decided that RRBs may take the following course of action in the matter:

- The liability on account of applicability of pension scheme will be fully recognised as per the applicable accounting standards.
- The expenditure, on account of revision in the pension, may, if not fully charged to the Profit and Loss Account during the FY 2024-25, be amortised over a period not exceeding 5 years beginning with the FY ending 31st March 2025, subject to a minimum of 20% of the total pension liability involved being expensed every year.
- Appropriate disclosure of the accounting policy followed in this regard should be made in the 'Notes to Accounts' to the FSs. Banks should also disclose the amount of unamortised expenditure and the consequential net profit if the unamortised expenditure had been fully recognised in the Profit & Loss Account.
- Pension related unamortised expenditure would not be reduced from Tier 1 Capital of the RRBs.

This circular is applicable to all the RRBs with effect from FY 2024-25.

Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purposes

Notification No. RBI/2024-25/128 dated 21st March 2025

In terms of Indian Accounting Standard **(Ind AS)** 116 - *Leases*, most leases will be reflected on a lessee's Balance Sheet as an obligation to make lease payments (a liability) and a related ROU asset (an asset).

Based on references received from various NBFCs (in their capacity as lessees) on the treatment of ROU assets for calculation of regulatory capital/ Owned Fund, the RBI has clarified that regulated entities will not be required to deduct an ROU asset (created in terms of Ind AS 116-*Leases*) from Owned Fund/ CET 1 capital/ Tier 1 capital, provided the underlying asset being taken on lease is a tangible asset. The ROU asset will be risk-weighted at 100%, consistent with the risk weight applied historically to the owned tangible assets.

This circular is applicable to all NBFCs (including housing finance companies (HFCs)) and Asset Reconstruction Companies **(ARCs)** implementing Companies (Ind ASs) Rules, 2015 with immediate effect.

Revised norms for Government Guaranteed Security Receipts (SRs)

Notification No. RBI/DOR/2024-25/135 dated 29th March 2025

With a view to adopting a differentiated approach in respect of SRs guaranteed by the Government of India, the prudential treatment relating to valuation of such SRs have been revised as under:

- If a loan is transferred to an ARC for a value higher than the net book value (NBV), the excess provision can be reversed to the Profit and Loss Account in the year of transfer if the sale consideration comprises only of cash and SRs guaranteed by the Government of India. However, the non-cash component in the form of SRs shall be deducted from CET 1 capital, and no dividends should be paid out of this component.
- Such SRs should be valued periodically by reckoning the Net Asset Value (NAV) declared by the ARC based on the recovery ratings received for such instruments. However, any unrealised gains recognised in the Profit and Loss Account on account of fair valuation of such investments should be deducted from CET 1 capital, and no dividends should be paid out of such unrealized gains.
- Any SRs outstanding after the final settlement of the government guarantee or the expiry of the guarantee period, whichever is earlier, should be valued at Re. 1.
- In the event of the SRs being converted to any other form of instruments as part of resolution, then the valuation and provisioning thereof, for such instruments will be governed by the provisions as laid in Prudential Framework for Resolution of Stressed Assets dated 7th June 2019.

The provisions of this circular will be applicable with immediate effect and be valid for all the existing and subsequent investments involving SRs guaranteed by the Government of India, during the validity of said guarantee by the Government on the concerned SRs.

RBI (Classification, Valuation and Operation of the Investment Portfolio of Commercial Banks) Directions, 2023

Notification No. RBI/2025-26/10 dated 1st April 2025

The RBI has issued clarifications on a few important aspects of the aforesaid Directions in the form of Frequently Asked Questions (FAQs). These instructions are applicable to all commercial banks (excluding regional rural banks) with effect from the date of implementation of the Directions.

Monetary Policy Statement 2025-26

Press Release dated 9th April 2025

The Monetary Policy Committee (MPC), in its 54th meeting unanimously decided to reduce the policy repo rate by 25 basis points, bringing it down to 6% with immediate effect.

Inter alia, the Bank Rate is revised downwards by 25 basis points from 6.50% to 6.25% with immediate effect as per Notification No. RBI/2025-26/23 dated 9th April 2025.

All penal interest rates on shortfall in cash reserve ratio (CRR) and statutory liquid ratio (SLR) requirements, which are specifically linked to the Bank Rate, also stand revised as under:

Penal Interest Rates which are linked to the Bank Rate

	Existing Rate	Revised Rate (With immediate effect)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls)	Bank Rate + 3 percentage points (9.50%) or Bank Rate + 5 percentage points (11.50%)	Bank Rate + 3 percentage points (9.25%) or Bank Rate+5 percentage points (11.25%)

Disclaimer and Statutory Notice

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