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**RESERVE BANK OF INDIA (COMMERCIAL BANKS – CREDIT FACILITIES) AMENDMENT**  
**DIRECTIONS**

**INTRODUCTION**

The Reserve Bank of India (RBI) has, via circular No. RBI/2025-26/258, dated 30<sup>th</sup> March, 2026<sup>1</sup>, has extended the deadline for the enforcement of the Reserve Bank of India (Commercial Banks – Credit Facilities) Amendment directions, 2026 (Revised), from 1<sup>st</sup> April, 2026, to 1<sup>st</sup> July, 2026<sup>2</sup>.

The Reserve Bank of India (Commercial Banks – Credit Facilities) Amendment Directions, 2026 (“Directions” henceforth), are aimed to provide acquisition funding opportunities to banks, revise loan ceilings and lending limits, and provide a more principle-based approach for lending to Capital Market Intermediaries (CMIs). Upon receiving feedback from CMIs, banks, and industry associations regarding operational and implementation challenges, RBI decided to increase the deadline to ensure a smoother transition.

While the Directions are quite vast, the provision concerning Capital Market Exposure (CME), is one of the most important. This amendment will help financial institutions make healthier decisions and pave a safer path towards acquisition, while also ensuring that no company uses these norms in an unlawful manner, thus ensuring a safety net for both the acquirer and the target company.

**CAPITAL MARKET EXPOSURE AND THE NEED FOR AMENDMENT**

In simple terms, CME refers to how much ‘exposure’ a Bank has in the Capital Market. Exposure can either be *direct*, where the bank invests directly in shares, bonds, or VC funds, or *indirect*, where the bank lends money against securities<sup>3</sup>. There is no bar as such on how much exposure a bank can have in the capital market, at least not until the Directions.

Prior to the Directions, the Banks played a risky game when it came to funding mergers/acquisitions. MnA is in itself a risky process, not knowing when it may topple down, it was a huge risk for banks to take, which also put the entire Capital Market at risk. To prevent this, RBI has introduced certain caps in the aforementioned Directions, which statutorily reduce

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<sup>1</sup> RBI, DOR.CRE.450/24-01-041/2025-26.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13350&Mode=0>.

<sup>2</sup> RBI, DOR.CRE.REC.446/07-01-001/2025-26.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13346&Mode=0>

<sup>3</sup> *RBI Capital Market Exposure Explained: How New Rules Empower Banks and Investors*, The Indium Dossier, October 26, 2025, [https://theindiumdossier.in/rbi-capital-market-exposure/#Key\\_Highlights\\_of\\_the\\_Draft\\_RBI\\_Capital\\_Market\\_Exposure\\_Norms](https://theindiumdossier.in/rbi-capital-market-exposure/#Key_Highlights_of_the_Draft_RBI_Capital_Market_Exposure_Norms).

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risks taken by banks in acquisition funding. Stock market activity is inherently volatile. Through the amendment, RBI ensures that even if the market falls or the transaction fails, the bank can recover its funds without distress.

The aim essentially is to create a balanced distinction between banking and investing. A bank inherently plays the role of an investor in an MnA transaction, because it is prone to also suffer loss if the ship sinks. The Directions aim to make sure that the money of the bank is secured regardless of the acquirer-acquired company's circumstance, for the greater good of both the bank's customer base as well as the overall economic stability of the Indian Capital Market.

### **CORE CHANGES**

The Directions bring about a list of changes to strengthen transparency and stability of the banks and their lending power. Here are some of the core amendments and their impact on the capital market:

#### **1. 100% SECURED LENDING TO BROKERS.**

- a. Under para-C of the Directions, with reference to para 219Z (3)<sup>4</sup>, which states that a bank *may* extend other working capital facilities against a 100% collateral of cash, cash equivalents or Govt. securities, it reads as if there is a discretionary power given to the banks on how much security they can exchange. However, under Para D of the same, it's given that "all credit facilities to CMIs *shall* be on a fully secured basis (i.e., 100% collateral)<sup>5</sup>.

The amendment therefore mandates a 100% secured lending to CMIs. The security could be cash or cash equivalent, but the intent is to fully secure the bank and ensure that there is no collateral harm done to its economy due to a faltering deal.

#### **2. FINANCING CORPORATE ACQUISITIONS**

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<sup>4</sup> Chapter C, RBI (Commercial Banks – Credit Facilities) Amendment Directions, 2026.  
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13346&Mode=0>.

<sup>5</sup> Chapter D, Para 219ZB, RBI (Commercial Banks – Credit Facilities) Amendment Directions, 2026.  
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13346&Mode=0>.

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- a. The amendments provide a certain threshold for acquisition financing. They state that acquisition financing should be done by incorporating the funds of the bank and that of the acquiring company.

The maximum amount a bank can finance is 75% of the acquisition value<sup>6</sup>. In case of a *listed acquirer* company, valuation should be determined by one independent valuer appointed by the bank, and as for an *unlisted acquirer* company, the lower of the valuation determined by two independent valuers appointed by the bank. It is necessary that the remaining percentage of funding (25%) should come from the acquiring company.

### **3. RULES FOR BANK GUARANTEES TO EXCHANGES**

- a. Stock exchanges require brokers to provide bank guarantees as part of their trading and clearing obligations. RBI has now imposed strict collateral conditions for issuing such guarantees.

At least 50% of the bank guarantee amount must be backed by collateral, out of which, 25% must be cash or cash-equivalent instruments. Non cash collateral must meet strict valuation norms. Bank guarantees are contingent liabilities. During extreme market stress, these guarantees can quickly turn into losses for banks. Enforcing a cash-backed guarantee reduces significant risk.

### **4. PROHIBITION ON BANK FUNDING FOR PROPRIETARY TRADING**

- a. Proprietary trading refers to trading in equities or derivatives using one's own capital. These positions are taken for profit, not for client execution. Under the amendment, banks cannot fund such proprietary trading desks. This aligns with global best practices that separates commercial banking from market speculation.

### **5. MANDATORY HAIRCUTS ON EQUITY COLLATERAL**

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<sup>6</sup> Chapter E(2)(170H), RBI (Commercial Banks – Credit Facilities) Amendment Directions, 2026.  
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13346&Mode=0>.

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- a. Banks must now apply minimum prescribed haircuts, which ensures that a sudden fall in share prices does not erode the bank's security. Since equity prices can fall sharply within hours, RBI wants banks to assume the worst-case scenarios upfront than a post-facto decision that does not have any impact after losses are made.

Some of the other important changes include improved risk classification and monitoring, inclusion under capital market exposure limits. It is quite understandable as to why RBI decided to amend these rules. With an ever changing and increasingly flexible commercial landscape, the banking systems need to evolve as well. Through these amendments, banks have the right to a full security during acquisition, and also have preventive measures in place. The amendments also empower the banks to carry out independent due diligence on the companies they are associating with.

### **CONCLUSION**

Citing operational concerns, RBI has issued a notice extending the deadline for enforcement of the Reserve Bank of India (Commercial Banks – Credit Facilities) Amendment directions, 2026 (Revised), from 1<sup>st</sup> April, 2026, to 1<sup>st</sup> July, 2026. This amendment is set to play a significant role in providing transparency and stability of the banks in the capital market, along with the means to fully secure the amount loaned.

Some of the key changes in the directions include 100% secured lending, independent audit of companies before engagement, statutory cap for acquisition fund, prohibition on proprietary trading, and mandatory haircuts on equity collateral.

These changes are aimed towards creating a principle-based approach towards acquisition funding by banks. They also aim to create preventive measures for banks so as to secure their loan amount and economical health before the potential loss, as opposed to the old post-facto method. The amendments modernise the banking sector to match with the everchanging capital market in India, while also keeping global standards in place.