

Statement on the feedback received on draft Directions

Subject: Reserve Bank of India (Capital Market Exposure) Directions, 2025

The Reserve Bank had, on October 24, 2025, issued the draft Directions on Capital Market Exposure (CME) for Commercial Banks and Small Finance Banks. Major feedback received and the comments thereon are summarized below¹

- 1. Paragraph 8 (i) - “Acquisition finance” means providing financefor purchase of all or a controlling portion of another company's ('target company') shares, or assets to gain control over the target company and its operations.**

Feedback: (i) Banks have been financing purchase of fixed assets by an acquirer through a slump sale method and the same was not classified as CME. As per the circular, acquisition finance as defined here (including financing of assets) will now be classified as CME.

RBI Comments: Clarified. The definition shall be read in entirety which states that objective of acquisition finance is to gain control over the target company and its operations. Nevertheless, for providing better clarity the definition has been suitably modified.

Feedback: (ii) Acquisition finance should be allowed in a scenario wherein the company already holds controlling stake and intends to increase its holding in order to *inter alia* provide exit to other investors.

RBI Comments: Accepted. Changes have accordingly been made to extend acquisition finance for acquiring additional stake provided it results in crossing a substantial threshold of 26%, 51%, 75%, 90% of voting rights, each conferring materially enhanced governance or control rights under applicable law.

Feedback (iii): Stakeholders have sought clarification as to whether equity of target also includes convertible instruments/ shareholder debt.

¹ Paragraph references mainly correspond to the draft Directions issued for Commercial Banks, and the equivalent provisions may be referred to in the Directions applicable to Small Finance Banks (SFBs) .

RBI Comments: Partially Accepted. Changes have been made to consider acquisition of either common equity shares or compulsorily convertible debentures (CCDs) or both under acquisition finance such that the acquiring company exercises a controlling stake over the target company.

Feedback (iv) Stakeholders have sought clarity on whether refinance of funding raised for acquisition will be allowed.

RBI Comments: Partially Accepted. It has been clarified that acquisition finance may also involve refinancing of existing debt of the target company, subject to certain conditions, provided refinancing is integral to the acquisition finance.

Feedback (v): Many stakeholders have requested that extant norms on acquisition of shares relating to a) Infrastructure Projects b) Overseas Acquisition c) PSU disinvestment and d) acquisition by specialized entities may not be subject to these Directions, and be left to be determined by individual bank boards.

RBI Comments: Partially Accepted. Objective of the proposed Directions is to put in place an omnibus framework for acquisition finance which shall include even currently permitted acquisition finance activities. Nevertheless, the prudential requirements under these directions shall not apply to acquisition finance undertaken by Indian bank's overseas branches under syndication arrangements, provided the participation by all overseas branches of a bank is less than 20 per cent of the total debt funding under a particular deal. Suitable modifications have been made to the draft and included in the final Directions.

2. **Paragraph 8 (iii) “Capital Market Intermediaries (CMIs)” means entities regulated by a financial sector regulator which extend broking, clearing, custody, market making, margin trading facility and other incidental services to individual and institutional investors. Collective investment schemes such as mutual funds, AIFs, REITs, InvITs, etc. shall not form part of CMIs for the purpose of these Directions.**

Feedback: Comments have been received that credit facilities to stock exchanges, clearing corporations, professional clearing members (PCMs),

Standalone Primary Dealers (SPDs) and other regulated entities may be exempted from CME.

RBI Comments: Partially Accepted. Qualified Central Counterparty (QCCPs) and SPDs have been excluded from the definition of CMIs and exposures to these entities have been exempted from CME. Exposures to other CMIs shall continue to be reckoned under CME.

3. **Para 8 (vi) “Eligible Securities” shall include the following:**
 - a) Listed Group 1 equity shares and preference shares
 - b) Government Securities including Treasury Bills and Sovereign Gold Bonds
 - c) Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year
 - d) Listed Debt Securities, including Convertible Debt Securities, rated BBB or higher
 - e) Units of Mutual Fund Schemes which are listed or where repurchase/ redemption facility is available for such units through the Asset Management Company
 - f) Units of Exchange Traded Funds (excluding commodity ETFs)
 - g) Units of REITs and InvITs

Feedback: Stakeholders have suggested that in addition to the eligible securities specified, other collateral such as immovable properties, receivables etc., may also be permitted as collateral for credit facilities to CMI.

RBI Comments: Accepted. Apart from the prescribed eligible capital market securities, credit facilities to CMIs may be secured by other usual collaterals such as cash, immovable properties, receivables, bank guarantees (BGs) and standby letter of credit (SBLC) (except Commercial Paper and Non-Convertible Debentures of original or initial maturity up to one year), subject to certain conditions.

4. **Paragraph 10A. Investment Exposures**
 - (a) direct investment in equity and preference shares; convertible bonds; convertible debentures;
- 10B. Credit Exposures**
 - (b) advances to individuals for investment in shares, convertible bonds, convertible debentures.....

Feedback: Some stakeholders have requested for Quasi Equity Instruments like Optionally Convertible Debentures, convertible preference share etc., to be treated as debt till they are converted into equity.

RBI Comments: Not Accepted. Any security with an optionality for conversion to equity shall be treated as equity for determining the CME.

5. Paragraph 14. Investment exposures calculated at cost price whereas credit exposures at sanctioned limits or outstanding, whichever is higher. However, in the case of fully drawn term loans,

Feedback: Stakeholders have requested to provide CCF and CRM benefit for CME computation

RBI Comments: Partially Accepted. Qualifying intraday facilitates shall be reckoned as CME at 30 per cent of the sanctioned amount. Further, all CME can be offset by CRM in the form of cash and G-Secs.

6. Paragraph 22 - Banks may lend to individuals against eligible securities...

Feedback: Stakeholders have requested to rationalize LTV requirement for eligible securities and restoration of 75 per cent LTV limit from 60 per cent for lending against equity shares.

RBI Comments: Not Accepted. The prescribed LTV requirements are commensurate with the increased ceiling on loan against equity shares as a prudential safeguard.

7. Paragraph 30. Banks shall comply with the following while lending to CMIs...:

b) Banks shall ensure that the eligible securities and cash pledged as collateral belong to the borrower CMI

Feedback: Some stakeholders have requested to permit security of promoter and promoter group (third party) be taken as collateral in case of lending to CMIs.

RBI Comments: Accepted. Collateral belonging to a promoter/group entity of the CMI may also be accepted provided it is unencumbered and legally enforceable

(c) banks shall not provide finance for acquisition of securities, including proprietary trading or investments by CMIs.

Feedback: Suggestions were made that the complete restriction on bank funding for proprietary trading may be reviewed. In particular, exemption has been sought in respect of temporary holding of debt securities.

RBI Comments: Partially Accepted. Finance for warehousing of debt instruments by CMIs shall be allowed against a firm order from clients for maximum period of 45 days, on a fully secured basis.

8. Paragraph 31. Bank finance to CMI shall be provided on a fully secured basis.....

Feedback: Many banks have requested for 50 per cent margin for intraday facilities.

RBI Comments: Accepted. Qualifying intraday facilities will be subject to a minimum collateral of 50 per cent.

9. Paragraph 32. In respect of financing for margin trading facility, there should be a legally enforceable agreement between the bank and the borrower CMI that would enable the CMI to deliver the clients' securities pledged with it to the lending bank in case of default by the clients ..

Feedback: Comments were received from stakeholders suggesting that it might be operationally difficult to implement a legally enforceable agreement between the bank and the borrower in MTF to deliver the clients' securities pledged with it to the lending bank.

RBI Comments: Accepted. The specification relating to pledging of client securities with the bank has been removed. However, it has been stipulated that the facility has to be on a fully secured basis, with a minimum of 50 per cent of collateral requirement in the form of cash, cash equivalents or G-Secs.

10. Paragraph 34. ...IPC exposure shall be reckoned (net of post-haircut margins posted by the client in accordance with SEBI regulations), at 30% of the settlement amount for intraday-exposure, and at 50% of the settlement amount for overnight exposure.

Feedback: Stakeholders have sought to reduce the CME exposure value for IPC exposure.

RBI Comments: Partially Accepted. This is a prudential prescription and an existing practice; hence exemption has not been granted. However, as a

significant relief, exposure shall be counted on the 'net settlement obligation' for a specific client within the same settlement cycle.

11. Paragraph 40. Banks shall fix limits for their aggregate exposures towards acquisition finance within the regulatory limit on 'Direct Capital Market Exposures' as per paragraph 11 (b).

Provided that aggregate exposure of a bank towards acquisition finance shall not exceed 10 per cent of its Tier 1 capital.

Feedback: Many entities have sought an increase in acquisition finance cap of 10% of Tier I limit.

RBI Comments: Accepted. Acquisition finance shall be permitted up to 20 per cent of eligible capital base of the financing bank within the overall CME limit.

12. Paragraph 42(i). Banks shall put in place a policy on acquisition finance, clearly defining the overall limit.....:

(i) Acquiring company and the SPV set up by it, wherever applicable, shall be a body corporate

Feedback: Stakeholders have sought clarity on whether existing SPV/ subsidiary may be allowed to do acquisition finance and whether the borrower has to necessarily be a direct SPV of the listed company.

RBI Comments: Clarified. The final Directions stipulate that *acquisition finance may be extended directly to the acquiring company; or an existing non-financial subsidiary of the acquiring company, or a step-down special purpose vehicle (SPV) set up by the acquiring company specifically for the purpose, subject to certain conditions.*

13. Paragraph 42. Banks shall put in place a policy on acquisition finance....

(ii) Acquiring company shall be a listed entity, having a satisfactory net worth and profit making for last three years.

Feedback: Stakeholders have requested to include following entities eligible for Acquisition Finance to a) Unlisted companies; b) financial entities such as NBFCs/CICs, AIFs, InvITs/REITs c) Foreign Owned and Controlled Company (FOCC).

RBI Comments: Partially Accepted. Unlisted companies have been permitted as eligible borrowers for acquisition finance, subject to certain

conditions. However, given that the basic objective of permitting only strategic investments and not amplifying financial sector leverage, financial entities such as NBFCs, AIFs etc. have not been allowed. Financing to InvITs, though, for acquisitions shall continue to be allowed as hitherto. As regards FOCC, the issue does not fall under the ambit of these Directions.

14. Paragraph 42. Banks shall put in place a policy on acquisition finance, clearly defining the overall limit.....:

(vi) A bank may finance at most 70% of the acquisition value, with at least 30% of the acquisition value to be funded by the acquiring company in the form of equity using own funds.

Feedback: Banks have sought clarity on how 30 per cent of acquisition value shall be funded.

RBI Comments: Accepted. Bank financing has been stipulated at 75 per cent of the acquisition value, as independently assessed by the bank. The remaining amount shall come from the own funds of acquiring company eg. internal accruals or fresh equity issuance. Also, a listed acquiring company may utilize bridge finance to satisfy this own fund requirement, subject to certain additional conditions.

15. Paragraph 42(vii). Banks shall put in place a policy on acquisition finance, clearly defining the overall limit.....:

(vii)The credit assessment shall be based on the combined balance sheet of the acquirer company and the target company. Post-acquisition debt to equity ratio at the acquiring company level or the SPV/target company level, as applicable, shall be within prudential limits set by financing banks, subject to a maximum of 3:1.

Feedback: Stakeholders have sought clarity on the consolidated debt: equity ratio.

RBI Comments: Clarified. Consolidated debt equity ratio will have to be maintained at the acquiring company's consolidated balance sheet level.

16. Paragraph 42. Banks shall put in place a policy on acquisition finance, clearly defining the overall limit.....:

(viii) Acquisition finance shall be fully secured by shares of the target company as primary security. Assets of the acquirer and/or target company, or other securities held by the acquiring company, may be taken as collateral security as per the bank's policy.

Feedback: Certain banks have requested that acquisition financing may be on an unsecured basis, and/or alternate security may be accepted as pledging all acquired shares of the target company may not be in conformity with BR Act 1949.

RBI Comments: Partially Accepted. While acquisition finance shall be secured by the acquired equity shares/CCDs of the target company, other unencumbered assets of the acquirer and/or target company may be taken as additional collateral as per the bank's policy. However, a corporate guarantee from the acquiring company, or its parent or the group holding entity, shall be mandatory.
