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RESERVE BANK OF INDIA

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**Reserve Bank of India (Local Area Banks – Credit Risk Management) Directions,
2025**

Table of Contents

Chapter I - Preliminary	2
Chapter II - Board Approved Policies	6
Chapter III - Statutory Restrictions	7
Chapter IV - Unhedged Foreign Currency Exposure (UFCE)	11
Chapter V - Legal Entity Identifier (LEI) for Borrowers	17
Chapter VI - Valuation of Properties - Empanelment of Valuers	19
Chapter VII - Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable, and Intangible Assets in CERSAI.....	21
Chapter VIII - Repeal and other provisions	23
Annex I	25



Introduction

Local Area Banks (LABs), in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of LABs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of LABs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

Accordingly, in exercise of the powers conferred by Sections 20, 21 and 35A of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India (hereinafter called the Reserve Bank) in this regard, Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby issues these Directions hereinafter specified.

Chapter I - Preliminary

A. Short title and Commencement

1. These Directions shall be called the Reserve Bank of India (Local Area Banks – Credit Risk Management) Directions, 2025
2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to Local Area Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

C. Definitions

4. (1) In these Directions, unless the context otherwise requires,



- (i) 'Bank Guarantee' shall mean financial and performance guarantees issued by banks on behalf of their clients. A financial guarantee assures payment of money in the event of non-fulfilment of contractual obligations by the client. A performance guarantee provides assurance of compensation if there is delayed or inadequate performance on a contract. A deferred payment guarantee assures payment of instalments due to a supplier of goods.
- (ii) 'Bills Purchased and Discounted' shall mean negotiable instruments that give the holder the right to receive stated fixed sums on demand or at a fixed or determinable future time. When a bank negotiates a bill payable on demand (sight bill) and provides funds to the holder, at a fee/ interest, the facility is referred to as bill purchase. When a bank negotiates bill payable after a usance i.e., at a fixed or determinable future time (usance bill) and provides funds to the holder, at a discount, the facility is referred to as bill discounting. Bills purchased and discounted can be Inland Bills and Foreign Bills. Inland Bills are Bills of Exchange drawn in India and paid in India to a person in India.
- (iii) 'Entity' in the context of 'Unhedged Foreign Currency Exposure' prescribed in Chapter-IV of these Directions shall mean a counterparty to which a bank has exposure in any currency.

Explanation: Exposure shall mean all fund-based and non-fund-based exposures.

- (iv) 'Financial hedge' shall mean hedging through a derivative contract with a financial institution. Financial hedge shall be considered only where the entity has documented the purpose and the strategy for hedging at inception of the derivative contract and assessed its effectiveness as a hedging instrument at periodic intervals.

Note: For the purpose of assessing the effectiveness of hedge, guidance may be taken from the applicable accounting standards and the relevant guidance notes of the Institute of Chartered Accountants of India on the matter.

- (v) 'Foreign Currency Exposure (FCE)' of an entity shall mean the gross sum of all



items on the entity's balance sheet that have impact on its profit and loss account due to movement in foreign exchange rates.

(vi) 'Letter of Credit (LC)' shall mean any arrangement how so ever named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation. An LC confirmed by a bank based and operating in another country is payable by the confirming bank.

(vii) 'Natural hedge' shall mean a hedge arising out of the operations of the company when cash flows offset the risk arising out of the Foreign Currency exposure (FCE). *Explanation:* An exposure shall be considered as naturally hedged only if the offsetting exposure has the maturity / cash flow within the same accounting year. For instance, export revenues (booked as receivable) may offset the exchange risk arising out of repayment obligations of an external commercial borrowing if both the exposures have cash flows / maturity within the same accounting year.

(viii) 'Overdraft (OD)' shall mean a facility, under which a customer is allowed to draw an agreed sum (credit limit) in excess of credit balance in their account. The overdraft facility may be secured (against fixed / term deposits and other securities, like small saving instruments, surrender value of insurance policies, etc.) or clean (i.e. without any security). The overdraft facility might be granted on their current account, savings deposits account or temporary overdraft on credit accounts.

(ix) "Smaller entities" in the context of 'Unhedged Foreign Currency Exposure' prescribed in Chapter-IV of these Directions shall mean those entities on which total exposure of the banking system is at ₹50 crore or less

(x) 'Substantial interest' shall have the same meaning as assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

(xi) 'Unhedged Foreign Currency Exposure (UFCE)' shall mean Foreign Currency Exposure (FCE) excluding items which are effective hedge of each other. While estimating UFCE of an entity, banks shall consider only two types of hedges - financial hedge and natural hedge.



(2) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or in other relevant regulations issued by the Reserve Bank, or Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.



Chapter II - Board Approved Policies

5. A bank shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, *inter alia*, cover aspects related to unhedged foreign currency exposures and valuation of properties including empanelment of valuers. The afore-mentioned specific aspects and other areas of concern which need to be addressed in such policies are also detailed in the relevant paragraphs of these Directions.



Chapter III - Statutory Restrictions

A. Advances against Bank's own Shares

6. In terms of Section 20(1)(a) of the Banking Regulation Act (BR Act), 1949, a bank cannot grant any loans and advances on the security of its own shares.

B. Advances to Bank's Directors

7. In terms of Section 20(1)(b) of the BR Act, 1949, a bank is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company [not being a subsidiary of the banking company or a company registered under Section 8 of the Companies Act, 2013, or a Government company] of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which they hold substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.
8. Section 20(1)(b) of the Act *ibid* also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest. Section 20(1)(b) of the BR Act, 1949 shall not apply to
 - (i) subsidiary of the bank, or
 - (ii) a company registered under Section 8 of the Companies Act, 2013 or
 - (iii) a Government company.

B.1 Exemption to certain 'Loans and Advances' from Section 20(1)(b) of BR Act 1949

9. Section 20 of BR Act, 1949 prohibits a bank from granting any loan or advance to any of its directors. However, in exercise of the powers conferred by clause (a) of the *Explanation* under sub-section (4) of Section 20 of the Act *ibid* and having regard to the considerations referred to therein, the Reserve Bank specifies that for the purposes of the said Section, the term 'loans and advances' shall not include the following:



- (1) loans or advances against
 - (i) Government Securities,
 - (ii) life insurance policies or
 - (iii) fixed deposit;
- (2) loans or advances to the AFC India Ltd;
- (3) call loans made by banking companies to one another;
- (4) 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.;
- (5) the following loans / advances granted to the Chief Executive Officer / Whole Time Directors:
 - (i) Loan for purchasing of car
 - (ii) Loan for purchasing of personal computer
 - (iii) Loan for purchasing of furniture
 - (iv) Loan for constructing / acquiring a house for personal use
 - (v) Festival advance
 - (vi) Credit limit under credit card facility

Provided that the loans and advances enumerated in paragraph 9(5) above shall meet the following conditions:

- (a) The loans and advances shall form part of the compensation / remuneration policy approved by the Board of Directors or any committee of the Board to which powers have been delegated or the Appointments Committee, as the case may be.
- (b) Interest rate charged on such loans shall not be lower than the rate charged on loans to the bank's own employees.

10. A bank shall note that in view of the prohibition under Section 20 of the BR Act, 1949, apart from the types of loans mentioned in paragraph 9, no other loan can be sanctioned to directors.



11. As regards giving guarantees and opening of LCs on behalf of a bank's directors, it is pertinent to note that in the event of the principal debtor committing default in discharging their liability and the bank being called upon to honour its obligations under the guarantee or LC, the relationship between the bank and the director could become one of the creditor and debtor. Further, it is possible for the directors to evade the provisions of Section 20 by borrowing from a third party against the guarantee given by the bank. Such transactions defeat the very purpose of restrictions imposed under Section 20, if the bank does not take appropriate steps to ensure that the liabilities thereunder do not devolve on it. 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.
12. In case, such contingencies arise as at 11 (2) & (3) above, a bank shall be deemed to be a party to the violation of the provisions of Section 20 of the BR Act, 1949.

B.2 Restrictions on Power to Remit Debts

13. Section 20A(1) of the BR Act, 1949 stipulates that a bank shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by
 - (1) any of its directors, or
 - (2) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
 - (3) any individual, if any of its directors is their partner or guarantor.



14. In terms of Section 20A(2) of the Act ibid, any remission made in contravention of the provisions of sub-section (1) above shall be void and of no effect.

C. Restrictions on Holding Shares in Companies

15. While granting loans and advances against shares, statutory provisions contained in Sections 19(2) and 19(3) of the BR Act, 1949 shall be strictly observed.

D. Restrictions on Credit to Companies for Buy-back of their Securities

16. In terms of provisions of the Companies Act, 2013, companies are permitted to purchase their own shares or other specified securities out of their

- (1) free reserves, or
- (2) securities premium account, or
- (3) the proceeds of any shares or other specified securities,

subject to compliance of various conditions specified therein. Therefore, a bank shall not provide loans to companies for buy-back of shares / securities.



Chapter IV - Unhedged Foreign Currency Exposure (UFCE)

17. A bank shall assess and monitor the Unhedged Foreign Currency Exposure (UCFE) of entities and maintain adequate provisioning / capital for the same, as per the instructions provided in this Chapter. An explanatory note providing the background of these instructions is furnished in Annex I.
18. Computation of UFCE

(1) A bank shall ascertain the Foreign Currency Exposure (FCE) of all entities at least on an annual basis. A bank shall compute the FCE following the relevant accounting standard applicable for the entity.

Explanation:

- (i) The requirement in paragraph 18(1) would not be applicable for entities which are already submitting the information on UFCE as per paragraph 18(2).
- (ii) To ascertain the FCE, a bank shall consider the items maturing or having cash flows over the period of next five years.

Note: For arriving at the foreign currency exposure of entities, their exposure from all sources including foreign currency borrowings and External Commercial Borrowings shall be taken into account.

(2) A bank shall assess the Unhedged Foreign Currency Exposure (UFCE) of entities with FCE by obtaining information on UFCE from the concerned entity.

Provided that the information on UFCE shall be obtained from entities on a quarterly basis based on statutory audit, internal audit, or self-declaration by the concerned entity.

Provided further that UFCE information shall be audited and certified by the statutory auditors of the entity, at least on an annual basis.

19. Provisioning and Capital Requirements



(1) A bank shall determine the potential loss to an entity from UFCE using the largest annual volatility in the USD-INR exchange rates during the last 10 years.

Explanation: A bank shall use the data published by FEDAI on largest annual volatility of USD-INR rate over a period of last 10 years and the same shall be used for computation of potential loss by multiplying it with UFCE.

Note: The UFCE in currencies other than USD shall be converted into USD using the current market rates for determining the potential loss from UFCE.

(2) A bank shall determine the susceptibility of the entity to adverse exchange rate movements by computing the ratio of the potential loss to entity from UFCE and the entity's EBID over the last four quarters as per the latest quarterly results certified by the statutory auditors.

Explanation: For the purpose of this paragraph, there is no differentiation between limited audited results and full audited results.

Note: (i) In cases where a bank is not in a position to obtain information on UFCE or EBID from listed entities for the latest quarter due to restrictions on disclosure of such information prior to finalisation of accounts, the bank shall have the option to use data pertaining to the immediately preceding last four quarters for computing capital and provisioning requirements.

(ii) In case of unlisted entities where the audited results of the last quarter are not available, the latest audited quarterly or annual results available shall be used. The annual EBID figure used shall at least be of the last financial year.

(3) Accordingly, a bank shall apply incremental capital and provisioning requirements to all exposures to such entities as under:



Table 1: Incremental Provisioning and Capital Requirements for UFCE

Potential Loss / EBID (per cent)	Incremental Provisioning Requirement (basis points)	Incremental Capital Requirement
Upto 15 per cent	0	0
More than 15 per cent and upto 30 per cent	20bps	0
More than 30 per cent and upto 50 per cent	40bps	0
More than 50 percent and upto 75 per cent	60bps	0
More than 75 per cent	80bps	25 per centage point increase in the risk weight

Explanation:

(i) Incremental provisioning and capital requirements shall be over and above the present requirements i.e., general provision for standard assets and applicable credit risk weights as per [Reserve Bank of India \(Commercial Banks – Income Recognition, Asset Classification and Provisioning\) Directions, 2025](#) and [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#), respectively.

(ii) As an example for the 25 percentage point increase in the risk weight in case of Potential Loss / EBID exceeding 75 per cent, for an entity which otherwise attracts a risk weight of 50 per cent, the applicable risk weight would become 75 per cent.

Note: The incremental provisioning for UFCE shall be based on the total exposure amount which is used for computing standard asset provisioning and the incremental capital requirements for UFCE shall be based on the total exposure amount which is used for computing credit risk capital requirements.

(4) A bank shall calculate the incremental provisioning and capital requirements at a minimum on a quarterly basis.



(5) For projects under implementation and for new entities, a bank shall calculate the incremental provisioning and capital requirements based on projected average annual EBID for the three years from the date of commencement of commercial operations.

Provided that the incremental provisioning requirement shall be subjected to a minimum floor of 20 bps of provisioning requirement.

(6) In cases where a bank is not able to get sufficient data to assess UFCE and compute incremental capital and provisioning requirements except for the smaller entities covered under the alternative method provided in paragraph 19(7) below, the bank shall take a conservative view and place the exposure to the entity at the last bucket (in Table 1 above) which requires incremental provisioning of 80bps and a 25 per centage point increase in risk weight.

(7) A bank shall have the option to follow an alternative method for exposures to smaller entities which are having foreign currency exposures and are not in position to provide information on their UFCE as per paragraph 18(2). Under this alternative method, a bank shall apply an incremental provisioning of 10 bps over and above extant standard asset provisioning instead of computing incremental capital and provisioning requirements as provided in paragraphs 19(1) to 19(5).

(8) The incremental provision requirement for UFCE shall be treated as general provision for disclosures and inclusion in Tier 2 capital.

20. Systems and Controls

- 1) A bank shall incorporate the risk of UFCE of entities in their internal credit rating system and credit risk management policies and procedures.
- 2) A bank shall stipulate internal limits for UFCE within the overall Board approved risk policy of the bank.

21. Consortium Lending

- (1) In the case of consortium / Multiple Banking Arrangements (MBAs), the



consortium leader / bank having the largest exposure shall have the lead role in monitoring the unhedged foreign exchange exposure of entities.

Note: A banks shall put in place a system for information sharing and dissemination in terms of [Reserve Bank of India \(Commercial Banks – Transfer and Distribution of Credit Risk\) Directions, 2025](#).

22. Exemption / Relaxation

A bank shall have the option to exclude the following exposures from the calculation of UFCE:

(1) Exposures to entities classified as sovereign, banks, and individuals;

Explanation:

1. For this purpose, 'sovereign' shall include domestic and foreign sovereign as provided in [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#).
2. For this purpose, the RBI regulated Financial Institutions, Bank of International Settlement (BIS), International Monetary Fund (IMF) and eligible Multilateral Development Banks (MDBs) listed in [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#) shall also be considered as 'bank'.

(2) Exposures classified as Non-Performing Assets;

(3) Intra-group foreign currency exposures of Multinational Corporations (MNCs) incorporated outside India; and

Provided that the bank is satisfied that such foreign currency exposures are appropriately hedged or managed robustly by the parent.

Explanation: For example, an Indian subsidiary of an MNC incorporated outside India may have borrowed from its parent.

(4) Exposures arising from derivative transactions and / or factoring transactions with entities, provided such entities have no other exposures to banks in India.



23. Overseas Branches / Subsidiaries

(1) The provisions of this Chapter shall also be applicable to overseas branches / subsidiaries of a bank subject to the following:

(i) With respect to the exposure to entities incorporated outside India, information on UFCE shall be obtained from such entities on a quarterly basis based on internal audit or self-declaration and the requirement of certificate from statutory auditors on annual basis, as provided in paragraph 18(2), may not be insisted upon. In cases where a bank is not able to obtain information on UFCE from concerned entities, the treatment provided in paragraph 19(6) shall apply.

(ii) A bank shall compute the potential loss due to UFCE by replacing INR with the domestic currency of that jurisdiction and USD with the foreign currency (i.e., currency other than domestic currency of that jurisdiction) in which the entity has maximum exposure in paragraph 19(1).

Note: A bank shall compute the largest annual volatility over a period of last 10 years in the following manner: First, daily changes in the foreign exchange rates shall be computed as a log return of today's rate over the previous day's rate. Second, daily volatility shall be computed as standard deviation of these returns over a period of one year (250 observations). Third, this daily volatility shall be annualised by multiplying it by square root of 250. This computation shall be performed on a daily basis for all the days in the last 10 years. The largest annual volatility thus computed shall be used for the computation of the potential loss by multiplying it with the UFCE.



Chapter V - Legal Entity Identifier (LEI) for Borrowers

24. The Legal Entity Identifier code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20 digit unique code to identify parties to financial transactions worldwide.
25. A bank shall ensure that non-individual borrowers with aggregate exposure of ₹ 5 crore and above from banks (Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks, and Primary (Urban) Co-operative Banks) and Financial Institutions (All India Financial Institutions and NBFCs (including HFCs)) obtain LEI codes

Explanation: 'Exposure' for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks / FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders shall ascertain the position of aggregate exposure based on information available either with them, or Central Repository of Information on Large Credits (CRLC) database or declaration obtained from the borrower

26. Borrowers who fail to obtain LEI codes from an authorised Local Operating Unit (LOU) shall not be sanctioned any new exposure nor shall they be granted renewal / enhancement of any existing exposure. However, Departments / Agencies of Central and State Governments (not Public Sector Undertakings registered under Companies Act or established as Corporation under the relevant statute) shall be exempted from this provision.

Explanation: A government agency is an administrative set up of the government, responsible for certain area/s of activity, e.g., ISRO, BIS, DGCA, etc.

A bank shall encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

27. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained



from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

28. The rules, procedure and documentation requirements maybe ascertained from [LEIIL](#).
29. After obtaining LEI code, a bank shall also ensure that borrowers renew the codes as per GLEIF guidelines.



Chapter VI - Valuation of Properties - Empanelment of Valuers

30. A bank shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers.
31. Policy for valuation of properties
 - (1) A bank shall have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
 - (2) The valuation shall be done by professionally qualified independent valuers i.e. the valuer shall not have a direct or indirect interest.
 - (3) A bank shall obtain minimum two Independent Valuation Reports for properties valued at ₹50 crore or above.
32. Revaluation of bank's own properties: In addition to the above, a bank may keep the following aspects in view while formulating policy for revaluation of their own properties:
 - (1) As banks are permitted to include revaluation reserves as part of Capital in terms of [Reserve Bank of India \(Local Area Banks - Prudential Norms on Capital Adequacy\) Directions, 2025](#), it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy shall *inter alia* cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc. The policy shall also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc.
 - (2) As the revaluation shall reflect the change in the fair value of the fixed asset, the frequency of revaluation shall be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation shall reflect the change in the expected pattern of consumption of



the future economic benefits of the assets. A bank shall adhere to these principles meticulously while changing the frequency of revaluation / method of depreciation for a particular class of asset and shall make proper disclosures in this regard.

33. Policy for Empanelment of Independent valuers

- (1) A bank shall have a procedure for empanelment of professional valuers and maintain a register / record of 'approved list of valuers'.
- (2) A bank may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, the bank shall take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

34. A bank shall also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.



Chapter VII - Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable, and Intangible Assets in CERSAI

35. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 8 of the Companies Act 2013 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).
36. It is to be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry shall be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. It may be noted that under the provisions of Section 23 of the SARFAESI Act, every transaction of security interest is required to be filed with the Registry.
37. The Government of India has issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:
 - (1) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.
 - (2) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.
 - (3) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature.



(4) Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof by an agreement or instrument other than mortgage.

38. A bank is advised to file the charges relating to all current transactions with CERSAI on an ongoing basis.



Chapter VIII - Repeal and other provisions

A. Repeal and saving

39. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Credit Risk Management as applicable to Local Area Banks, stands repealed, as communicated *vide circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025*. The Directions, instructions and guidelines already repealed shall continue to remain repealed.
40. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
 - (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
 - (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
 - (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

41. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

42. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these



Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

(Vaibhav Chaturvedi)
Chief General Manager



Annex I

Explanatory Note to Chapter on Unhedged Foreign Currency Exposure

Introduction

1. Unhedged foreign currency exposures of any entity are an area of concern not only for the individual entity but also to the entire financial system. Entities which do not hedge their foreign currency exposures can incur significant losses during the period of heightened volatility in foreign exchange rates. These losses may reduce their capacity to service the loans taken from the banking system and increase their probability of default thereby affecting the health of the banking system.

Background and Rationale

2. The Reserve Bank first introduced the concept in October 1999 as part of risk management systems after it was observed during the economic crises in some countries that banks bear additional credit risk on entities which have unhedged foreign currency risk. Accordingly, banks were advised to evolve a suitable framework for regular monitoring of foreign currency risk exposure of entities which do not have natural hedge and to factor such unhedged exposures of entities into the risk rating system for taking credit decisions.

3. The aim of the framework was that the banks shall price the risk from Unhedged Foreign Currency Exposure (UFCE) as credit risk premium which may nudge entities to hedge their foreign currency exposures in the market. To this end, banks were further advised through a series of instructions to a) regularly monitor the unhedged portion of large foreign currency exposures of entities; b) have a Board approved policy on hedging of foreign currency loans; and c) have a mechanism for information sharing on UFCE in case of consortium lending. However, a sizeable portion of entities' foreign currency exposures remained unhedged resulting in significant but avoidable risks to entities' balance sheets, in turn, impacting the quality of bank's assets.

4. To address the risk on bank's books, banks were advised to maintain incremental provisioning and capital requirements for their exposures to entities with UFCE. The process of computing incremental provisioning and capital requirements



can be summarised in following steps:

- (1) Step 1: Assess the foreign currency exposure (FCE) of the entity.
- (2) Step 2: Ascertain the amount of UFCE from entities' FCE taking into account two types of hedges – natural hedge and financial hedge.
- (3) Step 3: Estimate the potential loss to the entity from UFCE exposure of entity due to exchange rate movements.
- (4) Step 4: Maintain incremental provisioning and capital requirements against banks' exposure to the entity based on impact of likely / potential loss on entity's overall profitability.

5. Based on banks' feedback, a few amendments were made to the guidelines for operational clarity and accuracy of information obtained. These included, *inter alia*, allowing collection of information on UFCE directly from entities (through self-certified / audited UFCE certificates); clarification on capital treatment of incremental provisioning requirement for UFCE; and treatment in case bank is unable to obtain information on UFCE from entity. Banks were also given an option to follow an alternative method for their exposure to smaller entities. Under this alternative method, instead of obtaining information on UFCE from smaller entities, bank could maintain incremental provisioning of 10 bps for such exposures.

6. Further, some exposures were excluded from the ambit of these instructions, namely, inter-bank exposures, intra-group exposures of Multinational Corporations incorporated outside India and exposure to entities which have not borrowed from Indian banking system.