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Reserve Bank of India Issues Third Amendment Directions on Financial Statement Disclosures for Local Area Banks

The Reserve Bank of India vide notification bearing reference no. RBI/2026-27/92 dated May 18, 2026, has issued the *Reserve Bank of India (Local Area Banks – Financial Statements: Presentation and Disclosures) Third Amendment Directions, 2026* under Section 35A of the Banking Regulation Act, 1949. The amendment has been introduced pursuant to the issuance of the *Reserve Bank of India (Local Area Banks - Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026* and shall come into force with immediate effect.

Analysis

- The amendment revises the disclosure requirements relating to "Revenue and Other Reserves" under Schedule 2(IV) of the *Reserve Bank of India (Local Area Banks - Financial Statements: Presentation and Disclosures) Directions, 2025*.

- The revised clarification specifies that the term "Revenue Reserve" shall include all reserves other than Capital Reserve and reserves separately classified. Further, it clarifies that reserves shall not include amounts retained towards depreciation, renewals, diminution in value of assets, or provisions made for known liabilities.

- The amendment also substitutes Paragraph 10(3)(vi) dealing with disclosure of "Movement of provisions for non-performing investments (NPIs)". The revised format now requires Local Area Banks to disclose year-wise movement of NPI provisions including opening balance, provisions made during the year, write-off/write-back of excess provisions, and closing balance.

- The revised disclosure framework aligns financial statement presentation requirements with the updated investment portfolio classification and valuation regime introduced by the RBI in 2026.

- Operationally, Local Area Banks may be required to revisit their accounting classifications, reserve reporting methodology, and disclosure templates in annual financial statements to ensure consistency with the amended RBI disclosure norms.

- **Key Takeaways**

  - RBI has amended the financial statement disclosure framework applicable to Local Area Banks through the Third Amendment Directions, 2026.

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- The amendment provides revised interpretation and treatment of "Revenue Reserve" under Schedule 2(IV).
- Local Area Banks are now required to provide enhanced disclosure on movement of provisions for non-performing investments (NPIs).
- The Directions have been issued under Section 35A of the Banking Regulation Act, 1949 and are effective immediately from May 18, 2026.

➢ The notification is attached herein.

Click Here

RBI Amends Disclosure Requirements for NPIs in Financial Statements of Commercial Banks

The Reserve Bank of India vide notification bearing reference no. RBI/2026-27/91 dated May 18, 2026, has issued the "Reserve Bank of India (Commercial Banks – Financial Statements: Presentation and Disclosures) Sixth Amendment Directions, 2026" under Section 35A of the Banking Regulation Act, 1949. The amendment has been introduced pursuant to the issuance of the Reserve Bank of India (Commercial Banks - Classification, Valuation, and Operation of Investment Portfolio) Second Amendment Directions, 2026, and revises certain disclosure requirements relating to reserves and non-performing investments ("NPIs").

Analysis

➢ The amendment substitutes the notes and instructions relating to "Revenue and Other Reserves" under Schedule 2(IV) of the Reserve Bank of India (Commercial Banks - Financial Statements: Presentation and Disclosures) Directions, 2025. The revised provision clarifies that "Revenue Reserve" shall mean any reserve other than Capital Reserve and shall include all reserves not separately classified. Further, the amendment expressly excludes amounts retained towards depreciation, renewals, diminution in value of assets, or known liabilities from the scope of reserves.

➢ The amendment also revises Paragraph 10(3)(vi) concerning disclosure requirements relating to NPIs. The earlier disclosure requirement has now been substituted with a revised format titled "Movement of provisions for non-performing investments (NPIs)".

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- Commercial Banks are now required to specifically disclose year-wise movement of provisions held towards NPIs, including opening balance, provisions made during the year, write-offs/write-backs of excess provisions, and closing balance.

- The amendment directions have come into force with immediate effect from the date of issuance, i.e., May 18, 2026.

- **Key Takeaways**

  - Commercial Banks will be required to update their financial statement templates and internal disclosure mechanisms to incorporate the revised NPI provisioning disclosure format.

  - Finance, compliance, and reporting teams may need to realign reserve classification practices to ensure that provisions relating to depreciation, diminution in asset value, and known liabilities are not reflected as "Revenue Reserves."

  - Banks shall be required to maintain granular tracking of NPI provisioning movements, including additions, write-backs, and closing balances, for regulatory reporting and audit purposes.

  - The amendment has immediate effect and may require corresponding changes in accounting, disclosure, and regulatory reporting processes for the ongoing financial year.

- The notification is attached herein.

Click Here

Clause Using 'Can Be Settled By Arbitration' Does Not Create Binding Obligation To Arbitrate: Supreme Court

The Supreme Court has held that an arbitration clause employing the word "can" does not amount to a binding arbitration agreement, reiterating that an enforceable arbitration clause must reflect a clear and mandatory intention of the parties to resolve disputes through arbitration.

A Bench comprising Justice Sanjay Karol and Justice N. Kotiswar Singh dismissed an appeal challenging a decision of the Bombay High Court, which had ruled that Clause 25 of a Bill of Lading failed to satisfy the essential requirements of a valid arbitration agreement. The clause in question stated that disputes "can be settled by arbitration," which the Court found to be merely permissive rather than mandatory.

The Court endorsed the principle laid down in ***Jagdish Chander v. Ramesh Chander, (2007) 5 SCC 719***, observing that the language of an arbitration clause must indicate a clear determination and obligation to submit disputes to arbitration, rather than merely creating an option to do so.

The Court reiterated that where contractual language merely provides for the possibility of arbitration, such wording cannot be construed as a valid arbitration agreement. The judgment emphasized that a valid arbitration agreement must demonstrate the parties' intention to be bound by the arbitral process and the decision of the arbitral tribunal.

The Bench also referred to its recent decision in ***Alchemist Hospitals Ltd. v. ICT Health Technology Services India (P) Ltd***., wherein it was observed that the mere use of the term "arbitration" is insufficient to create a binding arbitration agreement if the corresponding mandatory intent to refer disputes to arbitration and be governed by the arbitral outcome is absent.

The Court underscored that the language employed in contractual clauses plays a decisive role in determining the intention of the parties regarding dispute resolution. Applying these principles to the present case, the Court concluded that Clause 25 of the Bill of Lading did not mandate arbitration and therefore could not be treated as a valid arbitration agreement.

Finding no merit in the challenge, the Supreme Court dismissed the appeal.
Case Title: *Nagreeka Indcon Products Pvt. Ltd. v. Cargocare Logistics (India) Pvt. Ltd.*
Case: Special Leave Petition (Civil) No. 19026 of 2023

Airline Obligated To Timely Inform Passengers Of Schedule Changes: Chandigarh State Commission Enhances Compensation Against Tata SIA Airlines

The State Consumer Disputes Redressal Commission, Chandigarh, has enhanced the compensation awarded against Tata SIA Airlines Ltd. after finding deficiency in service for preponing an international flight without prior intimation to passengers. The

Commission observed that compensation awarded in consumer disputes must adequately reflect the inconvenience, suffering, and distress caused to consumers and should also operate as a deterrent against negligent conduct by service providers.
A Bench comprising Justice Raj Shekhar Attri (President) and Preetinder Singh (Member) passed the order while deciding an appeal filed by the complainants seeking enhancement of compensation and litigation costs awarded by the District Consumer Commission.

Background

The complainants had booked domestic air tickets for travel between Chandigarh and Delhi, along with international flight tickets for travel from Delhi to Denpasar (Bali) and back through Tata SIA Airlines Ltd.

According to the complainants, upon reaching Denpasar Airport on April 2, 2024, for their return journey, they discovered that their scheduled flight had been preponed by the airline without any prior communication. As a result, they missed their flight and were left stranded at the foreign airport. They subsequently had to arrange alternate travel by purchasing fresh tickets at an expense of Rs.51,000/-.

The complainants further submitted that the delay caused them to miss their connecting flight from Delhi to Chandigarh, forcing them to incur additional transportation costs and undergo further inconvenience. Despite issuing a legal notice to the airline, no relief was provided, leading them to approach the District Consumer Disputes Redressal Commission-I, U.T. Chandigarh.

The District Commission had partly allowed the complaint and directed the airline to refund Rs.58,641/- with interest at 9% per annum, while also awarding Rs.7,000/- towards compensation for mental agony and harassment.

Aggrieved by the amount of compensation, absence of litigation costs, and the rate of interest awarded, the complainants preferred an appeal before the State Commission.
The airline opposed the appeal and argued that it was devoid of merit and liable to be dismissed.

Findings Of The Commission

The State Commission observed that the airline had advanced the flight schedule without communicating the change to the complainants and emphasized that timely notification of schedule modifications constitutes a fundamental obligation of an airline.

The Commission further noted that the complainants were stranded at an international airport and had to independently make alternate travel arrangements at substantially higher costs without any support or assistance from the airline. It also took note of the fact that the delay resulted in the complainants missing their connecting domestic flight,

thereby causing additional financial burden and prolonged hardship.

While examining the compensation granted by the District Commission, the State Commission found the amount of Rs.7,000/- awarded for mental agony and harassment to be inadequate in light of the circumstances.

The Commission observed that compensation in consumer disputes should realistically reflect the inconvenience, distress and suffering endured by consumers and should also serve as a reminder to service providers regarding the importance of complying with their obligations and maintaining standards of service.

Accordingly, the appeal was partly allowed. The Commission directed the airline to refund Rs.58,641/- along with interest at 9% per annum from the date of institution of the complaint, pay Rs.50,000/- towards compensation for mental agony, physical harassment and deficiency in service, and further pay Rs.15,000/- towards litigation expenses.

Case Title: *Aayush Bansal & Anr. v. Tata SIA Airlines Ltd.*
Case No.: FA No. SC/4/FA/42/2026

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