



RBI strengthens credit framework for Small Finance Banks with revised norms on loans against securities and CMI

The Reserve Bank of India, vide RBI/2025-26/259 – DOR.CRE.REC.451/07-01-002/2025-26 dated March 30, 2026, has issued the Reserve Bank of India (Small Finance Banks – Credit Facilities) Amendment Directions, 2026 (Revised). These amendments modify the existing 2025 Directions by introducing a comprehensive framework governing loans against financial assets (particularly eligible securities) and credit facilities to Capital Market Intermediaries (CMI), with enhanced prudential safeguards and risk controls.

Analysis

- The Directions have been issued under Sections 21 and 35A of the Banking Regulation Act, 1949, empowering RBI to regulate lending practices in public interest.
- A new framework under Chapter Q – “Loans Against Eligible Securities” (Para 201A onwards) has been introduced, replacing the earlier fragmented provisions and establishing a principle-based lending regime.
- RBI has defined “Eligible Securities” to include listed equity shares, government securities, debt instruments (rated BBB or above), mutual funds, ETFs, REITs and InvITs—broadening the collateral base.
- Specific prohibitions (Para 201B) have been introduced, including:
 - Loans against own securities
 - Loans against partly paid shares or locked-in securities
 - Loans for buy-back of shares or speculative purposes
 - Loans against short-term CPs/NCDs (≤ 1 year)
- Loan-to-Value (LTV) caps (Para 201G) have been prescribed:
 - Listed equity / convertible debt → 60%
 - Mutual funds / ETFs / REITs / InvITs → 75%
 - Debt MFs → 85%
 - Rated debt securities → 75–85% depending on rating



- Continuous monitoring of LTV is mandated, with mandatory rectification within 7 working days in case of breach.
- For individuals:
 - Overall exposure cap of ₹1 crore per borrower
 - IPO/FPO/ESOP financing capped at ₹25 lakh with minimum 25% margin
- A new Chapter XIA (Para 201R onwards) introduces a detailed regime for Credit Facilities to Capital Market Intermediaries (CMIs):
 - Lending allowed only to regulated CMIs
 - 100% collateralisation requirement (with limited exceptions)
 - Restrictions on financing proprietary trading activities
 - Guarantees permitted subject to minimum collateral and cash margins
- All exposures under these categories are to be classified as Capital Market Exposure (CME) and subject to concentration risk norms.
- The Directions will come into force from July 1, 2026 (or earlier upon adoption), replacing earlier amendment directions.
- The revised framework introduces a highly structured, risk-sensitive lending regime for Small Finance Banks, particularly impacting credit appraisal, collateral management, and exposure monitoring systems. Banks will need to revamp internal credit policies to incorporate LTV-based lending, security eligibility filters, and dynamic valuation mechanisms, along with automated tracking of margin breaches within the 7-day rectification window.
- The introduction of Chapter Q (Para 201A onwards) and Chapter XIA (Para 201R onwards) significantly increases compliance obligations in capital market-linked lending, especially due to full collateralisation norms, restrictions on end-use, and classification under CME limits. Operationally, banks must strengthen end-use monitoring, borrower-level exposure aggregation, and coordination with market infrastructure entities, while ensuring alignment with the circular RBI/2025-26/259 and the amended Directions to avoid regulatory breaches.



➤ Key Takeaways

- Introduction of comprehensive regime for loans against eligible securities (Para 201A onwards)
- Defined LTV caps and mandatory breach rectification timelines
- Expansion of eligible collateral universe with clear exclusions
- New regulatory framework for CMI's under Chapter XIA (Para 201R onwards)
- Mandatory full collateralisation and restriction on speculative/proprietary exposures
- Effective from July 1, 2026, with immediate policy alignment required

➤ The notification is attached herein.

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