



**NBFC** *FinSight* *Business & Compliance*

*Credit to Credibility...*

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## Taxation

### The Road Ahead

# Taxation in India's Financial Sector: Challenges, Reforms, and the Road Ahead

The financial sector in India is a critical pillar of economic development, encompassing banks, NBFCs, insurance companies, capital markets, and now an expanding fintech ecosystem. However, despite its growing importance, the taxation structure governing this sector remains complex, fragmented, and often misaligned with the needs of a modern economy. With a range of direct and indirect taxes levied at different levels - corporate income tax, capital gains tax, securities transaction tax (STT), stamp duty, and GST - financial institutions often struggle to maintain compliance, ensure transparency, and manage costs efficiently.

A key challenge lies in the multiplicity of taxes and the lack of harmonization across regulatory regimes. While GST has brought uniformity in many sectors, financial services continue to operate under partial GST coverage, creating uncertainty in valuation, input credit eligibility, and tax computation for various services like loan processing, brokerage, or fund management. For instance, banks and NBFCs often face blocked input tax credits on key expenses, which leads to a cascading tax burden and ultimately results in higher costs for consumers.

Further complications arise in the treatment of capital gains and dividend income. Frequent changes in tax rates, holding periods, and indexation benefits have created ambiguity for investors and asset managers alike. The recent shift from Dividend Distribution Tax (DDT) to taxing dividends in the hands of shareholders, while more transparent, has also led to a perception of double taxation in some investor segments. Similarly, stamp duty - administered by states - continues to vary across jurisdictions, adding further complexity and compliance overhead to financial transactions. In addition, India's growing fintech and digital asset ecosystem poses a new set of challenges.

The introduction of a 30% flat tax and 1% TDS on crypto transfers is a step toward formalizing virtual assets, but it has also led to confusion in classification and accounting standards. Emerging models like DeFi (decentralized finance), peer-to-peer lending platforms, and robo-advisory services lack comprehensive tax clarity, potentially discouraging innovation in a globally competitive space.

That said, the government has taken noteworthy steps toward reform. The abolition of DDT, reduction of corporate tax rates for new manufacturing entities, the push toward the IFSCA (International Financial Services Centres Authority), and rationalization of tax treatment for instruments like REITs and InvITs have improved investor sentiment and simplified the operating environment in selected areas. Yet, these reforms remain partial and often lack coherence across the full financial ecosystem.

Looking forward, a more holistic approach is needed. First, bringing all financial services under a uniform GST regime with full input tax credit would go a long way in reducing cascading costs and improving compliance. Second, harmonizing stamp duties through a national framework would simplify cross-state operations for financial institutions. Third, long-term capital gains taxation must be rationalized across asset classes to ensure neutrality and fairness in the tax system. Fourth, specific tax codes and compliance structures must be designed for the fintech, digital asset, and digital lending segments to reduce ambiguity and foster innovation.

**Warm regards,**

**Dinesh Gupta**  
**Chief Editor- NBFC FinSight**





# Cracking the Code: GST Complexities in Financial Services

- By Dinesh Gupta, Founder & Chief Consultant- DSB Law Group

## GST Complexities

### The Input Tax Credit (ITC) Puzzle

### Place of Supply: The Grey Zone

### Sector-Specific Complexities

The Goods and Services Tax (GST) was introduced to simplify India's indirect tax system, but for the financial services sector-banks, NBFCs, insurers, and mutual funds-it has often added new layers of complexity. Unlike traditional industries, financial services involve continuous, bundled, and cross-border transactions that make GST interpretation far from straightforward.

#### Why Financial Services Are Different

Financial products are not like one-time sales of goods. They often combine taxable and exempt components. For instance:

- Interest income on loans is exempt from GST.
- Processing fees, foreclosure charges, documentation charges, and penal interest are taxable.

This dual treatment forces institutions to maintain meticulous records and often confuses customers who wonder why one charge attracts GST while another does not.

#### The Input Tax Credit (ITC) Puzzle

One of the toughest challenges is blocked or restricted ITC. Since a large portion of financial institutions' revenue comes from exempt supplies (interest on loans, for example), they cannot fully claim credit on inputs like rent, IT services, or consultancy.

Institutions must apportion ITC based on taxable vs exempt supplies-a process that is both mathematically complex and operationally cumbersome. The result: higher effective costs, which are eventually passed on to customers.

#### Place of Supply: The Grey Zone

- GST liability also hinges on the "place of supply"-which state the service is deemed to have been delivered in. In a sector where services cross state boundaries every second, this is a recurring headache.

- Cross-border services like foreign remittances, NRI investments, or international fund transfers add further confusion on whether they qualify as exports (zero-rated) or taxable domestic services.

#### Sector-Specific Complexities

- Insurance: Premiums are taxable, but splitting between risk coverage and investment components is challenging.
- Mutual Funds/Asset Management: Advisory, distribution, and fund management services attract different GST treatments. Without consistent interpretation, disputes with authorities are common.

#### Compliance Overload

- For large institutions, compliance is as big a challenge as taxation itself:
- Interpreting frequent clarifications and circulars issued by GST authorities.
- This heavy compliance burden forces most financial institutions to invest in advanced tax engines, ERP integrations, and dedicated compliance teams-raising costs even further.

#### What the Future Holds

- The GST Council is aware of these challenges and has been debating reforms such as:
- Streamlined compliance for multi-state service providers.
- Until reforms materialise, financial institutions must focus on:
- Leveraging technology solutions to automate reconciliations and compliance.





# RBI Reforms for NBFCs: SRO Oversight and Stronger Co-Lending Norms

- By Dinesh Gupta, Founder & Chief Consultant- DSB Law Group

SRO Oversight

The Reserve Bank of India (RBI) has taken decisive steps to strengthen governance and risk discipline in the non-bank financial sector. Two major announcements made in October 2025- granting Self-Regulatory Organisation (SRO) status to the Finance Industry Development Council (FIDC), and issuing revised co-lending norms- are set to reshape the way NBFCs operate.

## Strengthening Oversight through FIDC as SRO

On October 3, 2025, the RBI officially recognised FIDC as the Self-Regulatory Organisation (SRO) for NBFCs. This recognition creates an industry-led body responsible for monitoring compliance, improving governance standards, and ensuring early risk detection across the sector. For NBFCs, the SRO status means closer alignment with industry best practices and stricter peer accountability. FIDC will now serve as the bridge between the regulator and the NBFC community, promoting a culture of self-discipline while complementing RBI's supervisory framework.

The move is particularly significant because the NBFC sector is diverse, with players ranging from large deposit-taking institutions to smaller niche lenders. The SRO mechanism is expected to bring standardisation in practices, enhanced transparency, and improved credibility in the eyes of lenders, investors, and customers.

## Co-Lending Norms Tightened

In another crucial reform, the RBI has revised directions on Co-Lending Arrangements (CLAs) between banks and NBFCs. Under the new rule, each regulated entity involved in co-lending must retain at least 10% of every loan on its own books. This ensures that risk is shared more equitably and both parties have genuine "skin in the game."

The revised framework addresses concerns about risk transfer and accountability, making it harder for one partner to offload credit exposure entirely onto the other. NBFCs will now need to carefully evaluate their co-lending portfolios, restructure revenue models, and adjust capital planning to comply with the retention requirement. While this may increase operational challenges, it is expected to create more resilient lending partnerships and reduce moral hazard.

## Balancing Prudence with Growth

These regulatory changes come alongside other supportive measures by the RBI aimed at balancing prudence with growth. For instance, the central bank has eased certain restrictions on bank-promoted NBFCs, reduced risk weights for infrastructure loans, and recently lowered the qualifying asset ratio for NBFC-MFIs from 75% to 60%. Together, these steps provide NBFCs with strategic flexibility while ensuring stronger guardrails against risk.

In addition, the RBI is consulting on broader changes to credit risk frameworks, including a shift towards the Expected Credit Loss (ECL) model of provisioning. Scheduled for rollout from April 2027, this reform will require NBFCs to adopt more forward-looking risk management and provisioning practices.

## What Lies Ahead

The recognition of FIDC as an SRO empowers the sector to regulate itself more effectively, while the tightened co-lending norms signal the regulator's intent to curb excessive risk transfer.

As the sector adapts, NBFCs will need to invest in compliance systems, re-evaluate co-lending partnerships, and engage more deeply with the SRO framework. While the transition may bring short-term challenges, in the long run these reforms are expected to strengthen customer trust, attract investor confidence, and build a more resilient NBFC ecosystem.

Strengthening Oversight through FIDC as SRO

Co-Lending Norms Tightened

Balancing Prudence with Growth



# Partnership Prowess: NBFC & E-Commerce Tie-Ups

By: CA Isha Gandhi



India's e-commerce sector has grown into a multi-billion-dollar ecosystem, reshaping how consumers shop and how small businesses sell. At the same time, Non-Banking Financial Companies (NBFCs) are searching for new growth engines beyond traditional retail and SME lending. The intersection of these two forces has given rise to one of the most exciting trends in financial services today: NBFC e-commerce partnerships.

### How the Model Works

- At its core, the partnership blends NBFC credit expertise with the deep customer and merchant networks of e-commerce platforms. The arrangement creates multiple use-cases:
- Consumer Financing: Shoppers can access buy-now-pay-later (BNPL) options, instant EMIs at checkout, or revolving credit lines integrated directly into the platform's payment system.
- Merchant Financing: Sellers on the platform get short-term working capital loans, inventory finance, or receivables-based lending, all linked to their sales cycles.
- Data-Driven Underwriting: Transaction histories and platform analytics provide NBFCs with alternative data to assess creditworthiness, particularly for thin-file borrowers with limited formal credit records.
- This model ensures that credit is offered in a frictionless, embedded manner, where the loan is not a separate process but part of the customer or merchant journey.

### Why It Works for Everyone

- **For Consumers:** Access to instant credit at the point of purchase makes high-value purchases more affordable, boosting convenience.
- **For Merchants:** Financing tied to platform sales helps sellers scale faster without lengthy bank procedures.

### Emerging Trends in India

- Several large NBFCs are launching co-branded credit cards and digital credit lines with e-commerce majors.
- Fintech-led NBFCs are deploying AI-powered credit scoring models using e-commerce data such as order frequency, returns, and customer ratings.
- Some e-commerce companies are moving further up the chain by applying for NBFC licenses themselves, aiming to integrate lending in-house.

These trends reflect a natural progression towards "embedded finance", where financial products are offered seamlessly within digital platforms.

### Risks & Challenges

Despite its promise, the model comes with inherent risks:

- Credit Risk: BNPL and merchant loans can carry higher default risks, particularly if underwriting standards are diluted in the race for growth.
- Regulatory Oversight: The RBI has been tightening norms on digital lending, insisting on greater transparency in fees, fair recovery practices, and proper customer consent.
- Data Privacy: The use of customer and merchant transaction data must be managed carefully to comply with consent-based frameworks and upcoming data protection laws.

### The Road Ahead

The next stage of NBFC e-commerce tie-ups will likely see more co-lending arrangements, sector-specific products and integration with digital public infrastructure like UPI and Account Aggregators. Larger NBFCs may also explore green finance partnerships with platforms promoting sustainable products.



# Rural Microfinance Growth & Inclusion: NBFCs at the Forefront

- By Dinesh Gupta, Founder & Chief Consultant- DSB Law Group

## Rural Microfinance Growth

### Why the Shift to Rural?

### Opportunities in Rural Microfinance

India's microfinance sector is undergoing a structural shift, and the numbers tell a powerful story: rural areas now contribute about 80% of the industry's portfolio, the highest share since 2011. Much of this transformation has been primarily driven by Non-Banking financial Institution-Micro Finance Institutions (NBFC-MFIs), which today account for nearly 86% of the microfinance client base and 84% of the outstanding loan book. This trend highlights both the challenges and the opportunities that lie in expanding financial inclusion at the grassroots level.

#### Why the Shift to Rural?

The microfinance industry, once concentrated in urban and peri-urban areas, is now firmly pivoting to rural India. Several factors explain this shift:

- **Untapped Demand:** Rural households and micro-entrepreneurs still face limited access to formal finance, relying heavily on informal credit.
- **Government Push:** Policies encouraging rural credit and livelihood development have created a favorable environment.
- **Digital Penetration:** Widespread use of smartphones and UPI has made rural borrowers more accessible and enabled digital disbursements and collections.
- **The NBFC Advantage**
- NBFCs have played a pivotal role in this expansion:
- **Distribution Reach:** NBFC-MFIs have built extensive branch and field networks, often deeper than banks.
- **Customer-Centric Models:** They use group lending, doorstep services, and simplified documentation, making credit accessible to low-income households.

#### Opportunities in Rural Microfinance

- **Women-Centric Lending:** A significant share of rural microfinance is directed at women entrepreneurs, empowering them socially and economically.
- **Sector Diversification:** Beyond consumption loans, there is rising demand for credit in agri-inputs, solar products, and rural housing.
- **Digital Ecosystems:** Partnerships with fintechs are enabling NBFCs to use alternate credit scoring, reducing dependence on physical paperwork.
- **Cross-Selling Potential:** As rural borrowers mature, there is scope to offer insurance, savings, and remittance services alongside microcredit.

#### Challenges on the Road

- Despite the optimism, NBFCs must carefully navigate key risks:
- **Credit Risk:** Over-indebtedness remains a concern where multiple lenders operate in the same geography.
- **Operational Costs:** Serving remote areas requires significant field staff and infrastructure investments.
- **Regulatory Scrutiny:** RBI norms around customer protection, lending limits, and grievance redressal are tightening.

#### Conclusion

With rural areas now contributing the lion's share of the microfinance portfolio, NBFCs and NBFC-MFIs stand at the heart of India's inclusion story. The road ahead requires balancing growth with responsibility: building stronger risk management, leveraging digital tools, and ensuring ethical lending practices. Done right, rural microfinance will not only strengthen the sector but also empower millions at the grassroots, making financial inclusion a true driver of social and economic transformation.





# RBI Expands Integrated Ombudsman Scheme

Legal Authority for Expansion

Empowerment

Grievance Redressal Avenues



## RBI Expands Integrated Ombudsman Scheme

- By Dr. Wishey Kataria - DSB Law Group

### A New Step in Consumer Protection

The Reserve Bank of India (RBI) has taken a decisive step to further strengthen its customer grievance redressal framework by extending the coverage of the Reserve Bank - Integrated Ombudsman Scheme, 2021 (RB-IOS, 2021). In a recent notification, RBI announced that State Co-operative Banks and Central Co-operative Banks will now fall under the scope of the Scheme.

This change will be effective from November 01, 2025, and reflects RBI's continued efforts to enhance financial consumer protection across all categories of regulated entities.

### Legal Authority for Expansion

The inclusion of these banks has been carried out under Section 35A of the Banking Regulation Act, 1949, which empowers the RBI to issue directions in the public interest. The Bank has clarified that this step is being taken to ensure uniformity and wider coverage, building on its earlier notification dated August 05, 2022.

By doing so, RBI ensures that millions of depositors and borrowers associated with co-operative banks will now have access to the same grievance redressal avenues as customers of larger commercial banks.

### Effective Date and Applicability

The notification makes it clear that this expansion will come into force from November 1, 2025. From that date, customers of State and Central Co-operative Banks will have the right to file complaints with the RBI Ombudsman if their issues are not resolved satisfactorily by their respective banks.

***The RBI's latest move underscores its commitment to protecting consumers and making grievance redressal more accessible, fair, and efficient. By extending the scheme to State and Central Co-operative Banks, the central bank is sending a strong message: no customer, whether in a metropolitan city or a rural village, should be left without access to effective complaint resolution. This is not just a regulatory expansion- it is a step toward building a more inclusive and customer-centric financial system for India.***

### Who is Now Covered Under RB-IOS, 2021?

With this expansion, the Scheme now covers a wide range of regulated entities in the Indian financial system. These include:

#### All Commercial Banks (except those specifically excluded)

- Regional Rural Banks
- State Co-operative Banks
- Central Co-operative Banks
- Scheduled Primary (Urban) Co-operative Banks
- Non-Scheduled Primary (Urban) Co-operative Banks with deposits of ₹50 crore and above, based on the previous year's audited balance sheet
- Non-Banking Financial Companies (NBFCs) authorised to accept deposits or having customer interface with asset size of ₹100 crore and above (excluding Housing Finance Companies)
- System Participants as defined under the Scheme
- Credit Information Companies



### Why the Expansion is Significant

- This inclusion is particularly important because co-operative banks serve as the backbone of credit delivery in rural and semi-urban areas. They cater to small depositors, farmers, traders, and self-help groups.
- Many of these customers lack easy access to grievance redressal mechanisms that are available in urban financial institutions. By bringing co-operative banks under the RB-IOS framework, the RBI has ensured a more inclusive and transparent grievance system that will build confidence among depositors.



# RBI's New Moves: Innovation, Liquidity, and Resilience in Focus

- By Dinesh Gupta, Founder & Chief Consultant- DSB Law Group

## RBI's New Moves

### Liquidity & Regulation

### Digital Risk & Inclusion

The Reserve Bank of India (RBI) is advancing reforms that combine digital innovation with financial stability. On October 8, 2025, it launched a retail sandbox for the digital rupee, giving fintech firms space to test new applications for everyday payments. At the same time, a pilot for tokenised Certificates of Deposit (CDs) was introduced through the wholesale CBDC layer, aimed at speeding up transactions and cutting intermediaries.

#### Liquidity & Regulation

To ease liquidity pressures, the RBI began a phased 100 basis point cut in the Cash Reserve Ratio (CRR) from September 2025. From April 2027, the RBI will adopt an Expected Credit Loss (ECL) framework, replacing the incurred-loss model and aligning Indian banks with global standards. The transition will be phased until 2031 to smooth implementation.

Meanwhile, the proposed buffer on digitally redeemable retail deposits has been reduced to 2.5% and deferred to April 2026, ensuring banks retain flexibility while addressing potential risks from rapid digital withdrawals.

#### Digital Risk & Inclusion

As financial services digitize, the RBI has flagged new risks, including algorithmic bias, platform concentration, and model risk. Stronger governance and transparency frameworks are being emphasized to manage these challenges. Equally, the RBI is pushing banks to adopt empathy-driven service design to ensure underserved and vulnerable groups are not excluded from digital banking.

#### Broader Measures

Beyond digital reforms, the RBI has allowed Indian banks to offer rupee-denominated loans to Bhutan, Nepal, and Sri Lanka, strengthening regional trade links. A leadership reshuffle has also reassigned



#### Key Takeaways

- Bold innovation through CBDC sandbox and tokenised money market instruments.
- Liquidity easing measures paired with tighter governance to ensure resilience.
- Transition to ECL aligns Indian banks with international norms.

#### Challenges Ahead

- Effectiveness of liquidity tools in lowering borrowing costs.
- Smooth adoption of ECL during transition years.
- Managing digital risks without deepening financial exclusion.

#### Outlook

India's financial system is entering a transformative phase, blending modern digital frameworks with stronger safeguards. Success will depend on striking the right balance between innovation, stability, and inclusion.





# RBI Unveils Unified Co-Lending Framework: A New Era for Joint Lending

By- CS Harshita, DSB Law Group, Jaipur

## Unified Co-Lending Framework

Minimum 10% Retention

DLG & Disclosures

On August 6, 2025, the Reserve Bank of India released its Co-Lending Arrangements Directions, 2025. Coming into effect from January 1, 2026, these Directions replace the earlier fragmented approach to co-lending, especially the 2020 guidelines on priority sector lending, and establish a unified framework that applies across banks, NBFCs, and housing finance companies. The intent is clear: to make co-lending a disciplined, transparent, and borrower-friendly model of credit delivery.

**Co-lending has become a key channel** for expanding access to finance. Banks bring the advantage of low-cost funds, while NBFCs and HFCs contribute distribution strength and customer understanding. Yet, the growth of this model raised questions of misaligned risks, weak oversight, and borrower confusion. The new framework addresses these gaps by putting in place strict requirements for retention, classification, fund flows and disclosures. At its heart lies the principle of skin in the game. **Every regulated entity must retain at least 10% of each loan** it originates under co-lending.

**Borrower protection also takes centre stage.** The framework mandates that one partner be clearly designated as the single interface for customers. This entity will handle all servicing, communication and grievance redressal. In the past, borrowers often faced uncertainty on who to approach; this move fixes that gap. Further, all disbursements and repayments must route through a dedicated escrow account, eliminating ambiguity in fund flows.

Another critical safeguard is uniformity in how loans are classified. If one co-lender marks a loan as non-performing, the other must do so too. This borrower-level classification rule prevents regulatory arbitrage and ensures both lenders recognise stress consistently.

The framework also covers Default Loss Guarantees (DLG). These may be extended by a co-lending partner up to 5% of the pool, but cannot be outsourced to external guarantors. This balances flexibility with prudence.

Transparency runs through the new regime. **Co-lenders must report their individual loan shares to credit bureaus.** They must also make public disclosures on partnerships, average interest rates, performance of co-lent portfolios and any guarantees offered. This visibility benefits not just regulators but also markets and customers. Existing co-lending agreements can continue, but new disbursements after the effective date must comply with the new framework. The older circulars stand repealed, bringing all models under a single, consistent rulebook.

### Key Highlights at a Glance

- **Applicability:** Banks (excluding SFBs, RRBs, LABs), AIFIs, NBFCs, HFCs.
- **Retention:** Minimum 10% of every loan on each lender's books.
- **Borrower Interface:** One entity acts as the single point of contact.
- **Fund Flows:** Mandatory escrow account for disbursements and repayments.
- **Asset Classification:** Borrower-level, mirrored across partners.
- **DLG:** Permitted up to 5% of the pool, only by a co-lender.
- **Disclosures:** To credit bureaus, websites, and financial statements.

*RBI's Co-Lending Directions, 2025 are not just another compliance burden-they are a milestone in making joint lending a sustainable, transparent and customer-centric pillar of India's credit architecture.*





# Cap on NBFC/Bank Investments in AIFs (Alternative Investment Funds)

By- VK Sareen, Executive Director- Credifin Limited

AIFs

Rebalancing the Strategies

Reduction in Contagion Risk

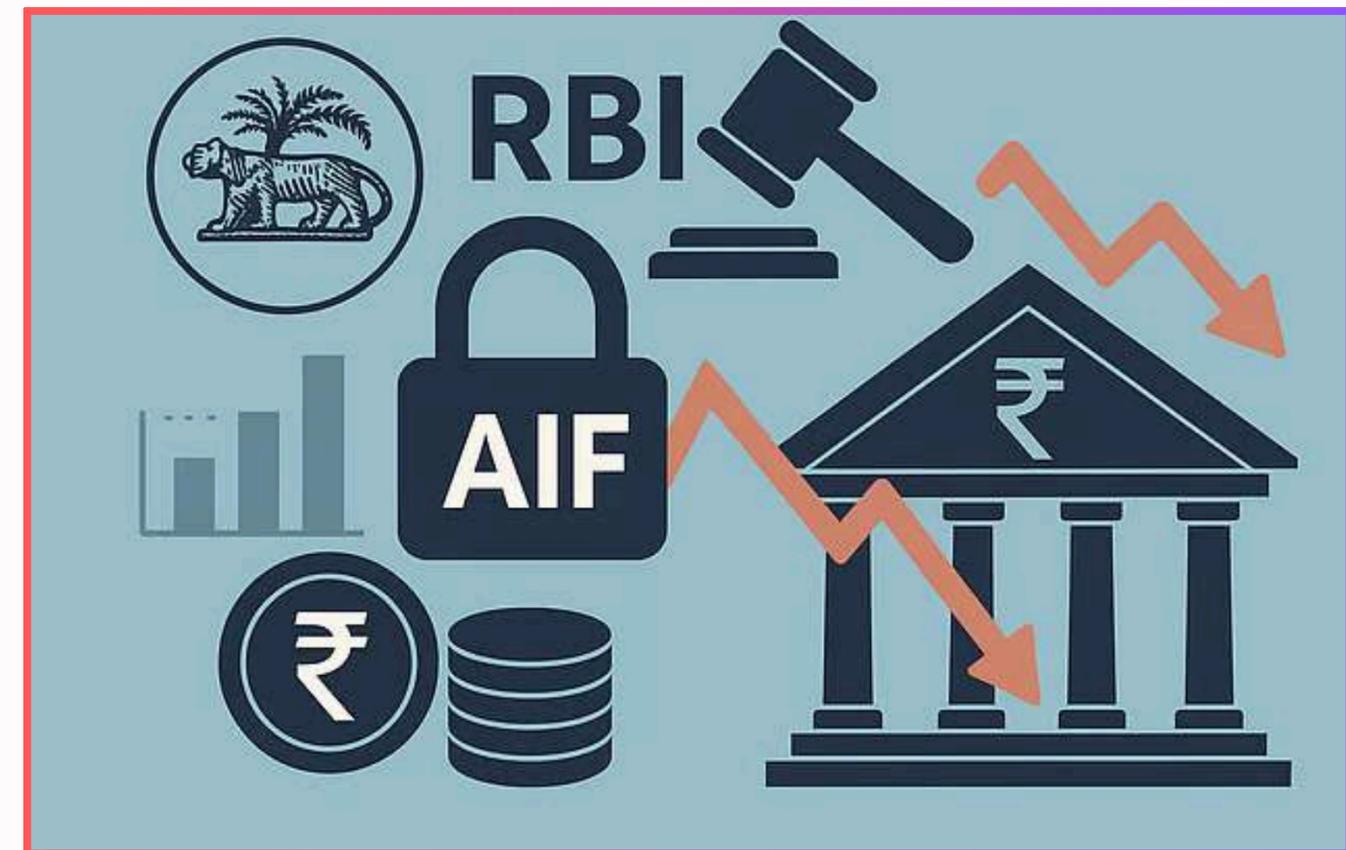
The Reserve Bank of India has recently tightened regulations on investments by banks and non-banking financial companies (NBFCs) in Alternative Investment Funds (AIFs), a move aimed at addressing concentration risks and improving systemic stability. Under the new framework, a single regulated entity such as a bank or NBFC cannot invest more than ten percent of the total corpus of an AIF. At the same time, an aggregate ceiling has been set, which ensures that the combined exposure of all regulated entities cannot exceed twenty percent of the fund's total size. This step reflects the RBI's broader intent to prevent excessive exposure to **high-risk pooled vehicles** and avoid indirect channels of credit to stressed sectors.

For NBFCs, the implications are immediate. Many had been using AIFs as a means of diversification, chasing higher yields while distributing portfolio risks. The new caps significantly reduce flexibility, limiting the ability to park large sums in these funds. As a result, **NBFCs will have to rebalance their strategies, channeling more capital** into traditional lending or safer market instruments such as bonds and securitisation deals. This may dampen returns in the short term but improves portfolio transparency and risk alignment.

The regulation also alters the fundraising dynamics for AIFs themselves. Several funds, especially in categories that thrive on institutional participation, may find it harder to attract large tickets from banks and NBFCs. They will increasingly depend on high-net-worth individuals, family offices, and global investors to bridge the gap. Over time, this **could change the investor composition of Indian AIFs**, making them less reliant on the domestic financial sector.

- While the caps may initially appear restrictive, they bring India's prudential practices closer to global norms where regulators discourage concentrated exposure to risky pooled structures.

**For the broader financial system, the benefit lies in reducing hidden leverage, improving resilience, and nudging NBFCs toward their core function of credit intermediation rather than speculative investments. Ultimately, the measure strikes a balance between allowing NBFCs some exposure to alternative markets while protecting stability and safeguarding investor trust.**



### Key Points

- 10% per entity and 20% overall cap on AIF investments.
- NBFCs must shift focus back to core lending and safer instruments.
- AIFs will rely more on HNIs, family offices, and global investors.
- Move ensures stability, transparency, and reduced contagion risk.





# Digital Deposit Buffer Rule

## Change Matters

## Broader Systemic Benefits

# Digital Deposit Buffer Rule

- By CA Kanika Gupta



The Reserve Bank of India (RBI) has been consistently refining its regulatory toolkit to meet the demands of a rapidly digitising financial ecosystem. One of its latest steps is the introduction of the Digital Deposit Buffer Rule, targeted specifically at risks arising from digitally redeemable retail deposits. These deposits, which can be withdrawn instantly through mobile apps, ATMs, or online platforms, reflect the convenience of modern banking but also bring new vulnerabilities. Unlike traditional withdrawals that required physical visits and time lags, digital platforms can enable mass withdrawals within minutes, raising the risk of sudden “digital bank runs.”

### The Original Proposal

- RBI initially proposed a 5% buffer requirement on all digitally redeemable retail deposits.
- The aim was to ensure banks had a dedicated liquidity cushion to handle rapid and simultaneous withdrawals.
- This buffer would be held in high-quality liquid assets, available on demand to meet any unexpected outflows.

### The 2025 Revision

After consultations with banks, industry bodies, and careful review of prevailing liquidity conditions, the RBI revised the proposal:

- Buffer scaled down to 2.5% (from 5%).
- Implementation deferred to April 2026 (instead of immediate enforcement).
- The new approach reflects RBI’s attempt to balance systemic stability with operational flexibility for banks.

### Why the Change Matters

The original 5% requirement was seen as too stringent, especially in a phase when banks are expected to support credit expansion for growth. A high mandatory buffer would have locked up funds in low-yield instruments, reducing the lending capacity of banks.

By reducing the percentage and providing a longer timeline, RBI avoids straining bank balance sheets while still ensuring a safety net is built into the system.

### Implications for Banks

- Liquidity Planning: Banks will need to build mechanisms to maintain the 2.5% buffer in liquid assets by April 2026.
- Balance Sheet Flexibility: The lower requirement frees up more funds for credit and investment in the interim.
- Risk Management: Emphasis shifts toward improved real-time monitoring of deposit flows and robust stress testing.
- Technology Investments: With risks linked to speed of withdrawals, banks may invest more in predictive analytics and digital monitoring systems.

### Broader Systemic Benefits

The Digital Deposit Buffer Rule addresses what RBI Deputy Governors have described as “non-traditional risks”. These are less about bad loans and more about operational and behavioural risks shaped by technology. The rule strengthens depositor confidence, ensures liquidity backstops during stress scenarios, and reduces the likelihood of panic spreading across digital platforms.

### Strategic Takeaways

- The scaled-down buffer shows RBI’s pragmatism: it recognises the risks of digitisation but avoids overburdening banks.
- Deferred implementation to 2026 provides breathing space for banks to prepare systems and gradually adapt.
- The framework aligns with RBI’s broader philosophy of innovation with caution-supporting digital transformation while safeguarding stability.





# RBI Drops Business Overlap Restriction for Bank-Promoted NBFCs

By- Dr. Wishey Kataria

The Reserve Bank of India (RBI) has decided not to impose restrictions on business overlaps between banks and their NBFC subsidiaries, a move that restores flexibility for financial groups and removes uncertainty around potential restructuring. This decision comes as a major relief for banking conglomerates, allowing them to continue operating with both banks and NBFCs serving overlapping segments such as retail lending, vehicle finance, and housing credit. Instead of structural prohibitions, the RBI will rely on consolidated supervision, governance standards, and transparency to ensure systemic safety.

## What This Means for the Industry

- **Flexibility Retained:** Banking groups can continue to leverage both entities in similar business areas without restructuring.
- **Preservation of Synergies:** NBFCs can focus on niche or higher-risk segments, complementing their parent banks and extending the group's reach.
- **Encouragement of Innovation:** Joint product design, customer acquisition, and technology initiatives between banks and NBFCs remain possible.
- **Regulatory Oversight Intact:** While overlaps are permitted, RBI has emphasized stronger disclosures, governance, and close monitoring of intra-group dealings.

## Why It's Significant

This step reflects a pragmatic regulatory philosophy. Rather than enforcing rigid separations, RBI is placing trust in principles-based supervision-ensuring risk is managed holistically across the group while giving institutions freedom to operate. It acknowledges the role NBFCs play in serving markets banks cannot always reach efficiently, particularly semi-urban and riskier borrower segments. For the wider financial system, the decision ensures continuity without disruption, protects credit flows, and reinforces the complementary roles of banks and NBFCs in expanding financial inclusion.



## Broader Implications

For banks, the relaxation ensures smoother collaboration with NBFC subsidiaries and the ability to innovate jointly in product design, technology, and customer acquisition. For NBFCs, it secures their role as an extension of the financial system, especially in segments underserved by banks. At the same time, the RBI has made it clear that this flexibility comes with accountability. Enhanced disclosures, sharper governance standards, and close monitoring of intra-group transactions will be expected.

**Business Overlap Restriction**

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**Preservation of Synergies**

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**Encouragement of Innovation**

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**Regulatory Oversight Intact**





NBFC Compliance Calender

Oct-25	Income Tax/PF /ESIC		GST		RBI	
Dates	Return	Compliance	Return	Compliance	Return	Compliance
07-Oct	Monthly TCS Payment	Taxpayers collecting TCS for the month of Sep 25				
	Monthly TDS Payment	Taxpayers collecting TDS for the month of Sep 25				
11-Oct			GSTR-1 Filing (Monthly)	For taxpayers with annual turnover > ₹1.5 crore or who have opted for monthly filing.		
13-Oct			Quarterly GSTR-1 (QRMP scheme)	Filing for July to Sept 25		
14-Oct					AD-1	Filing with ROC for Appointment of an Auditor for Companies
15-Oct	ESI Challan	Employers registered under ESI Act for the month of Sept 25			DNBS-4B Return	Base Layer NBFC with Asset Size of 100 Crore and Above & Middle Layer NBFC relating to Short term Dynamic Liquidity-Return of Structural Liquidity & Interest Rate Sensitivity
	PF Challan (ECR)	Employers registered under EPF Act for the month of Sept 25				
	TCS Return	TCS return in form 27EQ for July to Sept 25				
18-Oct			CMP 08	Filing for July-Sep 2025 quarter (Composition Scheme)		
20-Oct			GSTR-3B (Monthly)	For taxpayers with:		
				Annual turnover > ₹5 crore, or Opted for monthly filing		
21-Oct					Financial Details Return (DNBS02)	Base Layer NBFC for Reporting financial position, asset classification, and liabilities
					DNBS-01, DNBS-03 Returns	Middle Layer and Upper Layer NBFC for financial performance, risk, and deposits
					DNBS-4A Return	Base Layer NBFC with Asset Size of 100 Crore and Above & Middle Layer NBFC relating to Short term Dynamic Liquidity
					Return of Overseas Investments (DNBS13)	Base Layer NBFC For Overseas Investment
22-Oct			GSTR-3B	Filing for July-Sept 2025 quarter for South India		
24-Oct			GSTR-3B	Filing for July-Sept 2025 quarter for North India		
29-Oct					AOC4	Filing of audited financial statements by Companies for FY 24-25
30-Oct	TDS Payment	TDS Payment in Form 26QB (Property), 26QC (Rent), 26QD (Contractor Payments), 26QE (Crypto Assets) for Aug 2025			DNBS08 - CRILC-Main	Base Layer NBFC with Asset Size of 500 Crore and Above & Middle Layer NBFC relating to Short term Dynamic Liquidity-Return for Large Credits & SMA
	Issue of TCS Certificates	Form 27D for July to Sept 2025			FORM 8	Filing of Statement of Account & Solvency by LLP to ROC for FY 24-25
31-Oct	TDS Return filling	Q2 of FY 2025-26 ( July to Sept 25)			FDI Compliance Certificate (FDI-SAC)	HFCs with Foreign Direct Investment
	Income Tax Return	Income tax return for NON -corporates who needs Audit and Corporates for FY 24-25			Loan Securitization & Borrowing Compliance	NBFCs engaged in loan securitization for Ensuring adherence to RBI securitization & direct assignment guidelines
					Interest Rate Futures (IRF) Transaction Statement	NBFCs engaging in derivatives

October-2025





# NBFC Compliance Calender

## November-2025

Nov-25	Income Tax/PF /ESIC		GST		RBI	
Dates	Return	Compliance	Return	Compliance	Return	Compliance
07-Nov	Monthly TCS Payment	Taxpayers collecting TCS for the month of Oct 25				
	Monthly TDS Payment	Taxpayers collecting TDS for the month of Oct 25				
11-Nov			GSTR-1 Filing (Monthly):	For taxpayers with annual turnover > ₹1.5 crore or who have opted for monthly filing.		
12-Nov					Prudential Norms Information (Schedule-II Return)	Housing Finance Companies (HFCs)-Reporting capital adequacy, provisioning, NOF, and asset classification
					ALM-II Statement	Deposit-taking & Large NBFCs-Reporting liquidity and interest rate sensitivity
13-Nov			Quarterly GSTR-1 IFF (QRMP scheme):	Filing for Oct 25 (Optional)		
15-Nov	ESI Challan	Employers registered under ESI Act for the month of Oct 25			DNBS-4B Return	Base Layer NBFC with Asset Size of 100 Crore and Above & Middle Layer NBFC relating to Short term Dynamic Liquidity-Return of Structural Liquidity & Interest Rate Sensitivity
	PF Challan (ECR)	Employers registered under EPF Act for the month of Oct 25				
	Form 16A	Issue of TDS Certificates in Form 16A for July to Sep 2025				
20-Nov			GSTR-3B (Monthly)	For taxpayers with: Annual turnover > ₹5 crore, or Opted for monthly filing		
25-Nov			GST (Quarterly Filers)	GST Challan Payment if no sufficient ITC for Oct 2025		
29-Nov					Mgt 7/7A	Filling for Companies & OPC for FY 2024-25
30-Nov	TDS Payment	TDS Payment in Form 26QB (Property), 26QC (Rent), 26QD (Contractor Payments), 26QE (Crypto Assets) for Oct 2025			DNBS08 – CRILC-Main	Base Layer NBFC with Asset Size of 500 Crore and Above & Middle Layer NBFC relating to Short term Dynamic Liquidity-Return for Large Credits & SMA
					Labour License	Renewal of Labour License for Calender year 2025-26





# NBFC Compliance Calender

## Compliance Required

S No.	In addition to:	COMPLIANCE REQUIRED
1	Statutory Compliance Board Meetings	<b>All NBFC</b> -Quarterly meetings discussing regulatory updates-4 times a year as per Companies Act
2	FEMA Foreign Investment Reporting	<b>NBFCs with FDI</b> -Report any foreign direct investment (FDI) transactions to RBI on Monthly Basis as per FEMA and RBI FDI Guidelines
3	Customer Complaint Tracking	<b>All NBFC's</b> -Maintain records of customer grievances and resolutions as per RBI guidelines on Monthly Basis as per RBI Fair Practices Code
4	CERSAI Reporting (Central Registry of Securitization and Asset Reconstruction)	<b>NBFCs engaged in secured lending</b> -reporting securitization and asset reconstruction transactions on Weekly Basis as per SARFAESI Act
5	CKYC Uploads	<b>All NBFCs</b> onboarding new customers-Reporting new customer onboarding under Central KYC on Weekly Basis as per CKYC RBI Circular
6	FIU-IND Reporting (Suspicious Transaction Reporting – STR)	<b>All NBFCs</b> -Submission of suspicious transaction reports to FIU-IND on Weekly basis as per Prevention of Money Laundering Act
7	DNBS10 (Statutory Auditors Certificate)	<b>All NBFCs &amp; Asset Reconstruction Companies (ARCs)</b> - Confirmation of Compliance with RBI Norms -Within 5 days from the approval of financial Statement by the Board of Directors but not maximum by 31st of December, 2025
8	DNBS09 – CRILC-Weekly	<b>Base Layer NBFC with Asset Size of 500 Crore and Above, Middle Layer NBFCs</b> -Return for Large Credits & SMA to be filed on or before Wednesday of the following week

# Editorial & Contributor Panel



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Trusted Legal Advisors. Strategic Business Partners.

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