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ACCEPTANCE OF GREEN DEPOSITS BY REGULATED ENTITIES

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Climate change has been recognised as one of the most critical challenges faced by the global society and economy in the 21st century. The financial sector can play a pivotal role in mobilizing resources and their allocation thereof in green activities/projects. Green finance is also progressively gaining traction in India. We can see some Regulated Entities (REs) are offering green deposits for financing green activities and projects.

The Reserve Bank of India (RBI) has issued a framework for acceptance of green deposits on 11 April 2023. The framework aims to encourage REs to offer green deposits to customers. The objective is to protect the interests of depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and increase the flow of credit to green activities/projects.

The framework would be applicable to the following REs with effect from **1 June 2023**.

The provisions shall be applicable to the following entities, collectively referred to as regulated entities (REs):

- a) Scheduled Commercial Banks including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks) and
- b) All Deposit taking Non-Banking Financial Companies (NBFCs) registered with the RBI including Housing Finance Companies (HFCs) registered under section 29A of the National Housing Bank Act, 1987.

The framework allows REs to issue green deposits as cumulative or non-cumulative deposits. On maturity, the green deposits will be renewed or withdrawn at the option of the depositor. The green deposits shall be denominated in Indian rupees only.

The framework provides guidance with respect to:

- ▶ Denomination, interest rates and tenor of deposits
- ▶ Policy on issuance of green deposits
- ▶ Financing framework for effective allocation of green deposits
- ▶ Allocation and use of proceeds raised from green deposits
- ▶ Requirements on independent third-party verification/assurance with respect to the allocation of funds raised through green deposits
- ▶ Reporting and disclosure requirements.

Further, RE's are required to have a comprehensive Board-approved policy on green deposits, laying down all aspects in detail for the issuance and allocation of green deposits. A copy of the policy on 'Green Deposits' should be made available on the RE's website.

From the guidance given we can understand that, the allocation of funds raised through green deposits by REs during a financial year shall be subject to an independent third-party verification or assurance which shall be done on an annual basis.

The third-party assessment would not absolve the REs from their responsibility regarding the end-use of funds for which the laid down procedures of internal checks and balances would have to be followed as in the case of other loans.

These initiatives taken by the regulators gives confidence to various stake holders on steps taken towards Climate Control measures.

Source: RBI notification no. RBI/2023-24/14 DOR.SFG.REC. 10/30.01.021 /2023-24 dated 11 April 2023