

# Analysis of RBI's Revised Capital Market Exposure Directions

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## Synopsis

- RBI's revised 2026 Capital Market Exposure (CME) Directions introduce a significantly modernised and principle-based framework that reshapes how banks engage with capital-market-related lending, particularly by liberalising acquisition finance, updating loan-against-securities norms, and imposing more rigorous collateral and exposure requirements for capital market intermediaries.
- The Directions now allow eligible domestic corporations to secure bank funding of up to 75% of acquisition value, supported by clearer prudential guardrails such as consolidated debt-equity thresholds and mandatory unencumbered share-based security. At the same time, new LTV caps, borrower limits, and enhanced governance standards refine retail lending against marketable securities.
- At the same time, Capital Market Intermediaries (CMIs) face stricter rules, including full collateralisation, minimum equity haircuts, and curtailed access to financing for proprietary positions. With system-wide CME exposure still well below the regulatory caps, the revised rules create headroom for growth while ensuring stronger risk discipline.
- Overall, the framework is expected to expand the domestic banking sector's role in M&A financing and market-linked credit, even as both banks and intermediaries must upgrade risk assessment, collateral management, and operational processes ahead of the April 1, 2026, implementation.

## Overview

The Reserve Bank of India (RBI) has issued final Amendment Directions on Capital Market Exposure (CME) for Commercial Banks and Small Finance Banks following review of public feedback on the October 2025 draft guidelines. These directions materially reshape the regulatory regime for lending to capital market participants, acquisition financing, and exposure to marketable securities. The revised framework introduces a more flexible, principle-based approach, enhances lending limits, removes outdated ceilings, and strengthens risk governance expectations across the financial ecosystem. The amendments have been achieved through the issuance of the following Amendment Directions:

Directions	Summary
RBI (Commercial Banks – Credit Facilities) Amendment Directions 2026	Directions and guidance for Acquisition Finance, Loan against eligible securities, and funding CMIs
RBI (Commercial Banks - Concentration Risk Management) Amendment Directions, 2026	Exposure limits of investment and credit, prudential ceilings, and exclusions for CMIs and individuals
RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026	Provides regulatory clarity on Irrevocable Payment Commitments (IPCs) issued by banks to clearing corporations of stock exchanges.
RBI (Commercial Banks Financial Statements Presentation and Disclosures) Third Amendment Directions 2026	Revised format of disclosure of exposure to capital markets
RBI (Commercial Banks – Undertaking of Financial Services) – Amendment Directions, 2026	Provides a coherent, harmonised structure for undertaking financial services, particularly those

	related to acquisition finance, bridge finance, and lending against securities
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### Acquisition Financing

According to RBI, acquisition finance shall mean a financial facility or assistance provided to an eligible borrower entity for the purpose of acquiring equity shares or compulsorily convertible debentures (CCDs) in a target company or its holding company, resulting in the borrower entity acquiring control over the target company. Such funding may also involve refinancing the target company's existing debt if the refinancing is integral to the acquisition finance.

**Figure 1: Eligible Entities and Conditions**

Acquiror	Target	Financing norms
<ul style="list-style-type: none"> <li>Indian non-financial company</li> <li>Listed/ unlisted</li> <li>Networth &gt; Rs. 500 crores</li> <li>3 years' track record of profitability</li> <li>Investment grade rating (minimum BBB-) in case of an unlisted acquiror</li> </ul>	<ul style="list-style-type: none"> <li>Domestic/foreign</li> <li>Shall not be a Related Party to the Acquiring company (in case of first-time acquisition of control), including entities under common control, common management, or common promoter group, whether directly or indirectly</li> </ul>	<ul style="list-style-type: none"> <li>Credit assessment based on the combined balance sheet of Acquiror and target.</li> <li>Max 75% of acquisition value can be financed</li> <li>Remaining by acquiror using own funds.</li> <li>Primary security would be on acquired equity shares/ CCDs of the target, and be free from any other encumbrance</li> <li>Mandatory corporate guarantee by acquiror, or its parent or group Holdco</li> <li>Post-acquisition consolidated debt-equity ratio of acquiror shall not exceed 3:1 continuously</li> </ul>

The acquisition is permitted for acquiring equity stakes as strategic investments, either leading to

- acquisition of control through a single or a series of transactions within 12 months from execution of the acquisition agreement, or
- acquisition of additional stake crossing substantial thresholds [26%, 51%, 75% or 90% of voting rights], in target companies where control already exists.

### Other Norms

- Board-approved policy to incorporate underwriting benchmarks that address structural complexities, in particular relating to exposure limits, equity contribution, leverage multiples, and cash-flow certainty.
- Prudential ceilings on Acquisition Finance set at a maximum of 20% of the Bank's eligible capital base within the aggregate ceiling of 40% on CMEs, on a standalone/consolidated basis, with banks being allowed a lower ceiling.
- Detailed disclosure in financial statements includes disclosure of various forms of CMEs of the bank.

### Loans Against Eligible Securities

As per the board-approved policy, banks may extend credit facilities against collateral consisting of eligible securities, excluding their own securities. The policy would have to specify the criteria for selecting securities as collateral; determine portfolio-level as well as single-borrower/group-borrower limits; concentration limits on exposure to single securities; LTV/margins and haircuts for different securities; and rules for ongoing valuation and margin calls.

### Lending to individuals, including non-commercial HUFs

**Figure 2: Loan-to-Value (LTV) requirements**

Nature of security	Limits
Government Securities (including T-Bills)	As per the bank's policy
Sovereign Gold Bonds (SGBs)	As applicable in the case of loans against Gold and Silver Collateral
Listed shares and listed convertible debt securities	60%
Mutual Funds (excluding Debt MFs), Units of ETFs, and Units of REITs/InvITs	75%
Debt Mutual Funds	85%
Listed Debt Securities with rating:	
AAA	85%
AA – BBB	75%

**Figure 3: Prudential ceilings**

Nature of activity	Limits
Acquisition of securities in the secondary market	Maximum up to Rs. 25 lacs
Maximum cap on loans to individuals	Up to Rs. 1 crore for eligible securities other than G-Sec, listed investment-grade debt and units of debt mutual funds
IPO/ FPO/ ESOP financing	Rs. 25 lacs per individual, subject to 25% cash margin (maximum 75% value can be funded)

### Lending to Capital Market Intermediaries

Capital Market Intermediaries (CMIs) include entities regulated by a financial sector regulator that provide broking, clearing, custody, market-making, margin-trading facilities, and other incidental services; however, they do not include standalone primary dealers, qualified central counterparties, or collective investment schemes such as mutual funds. AIFs, REITs, InvITs, etc.

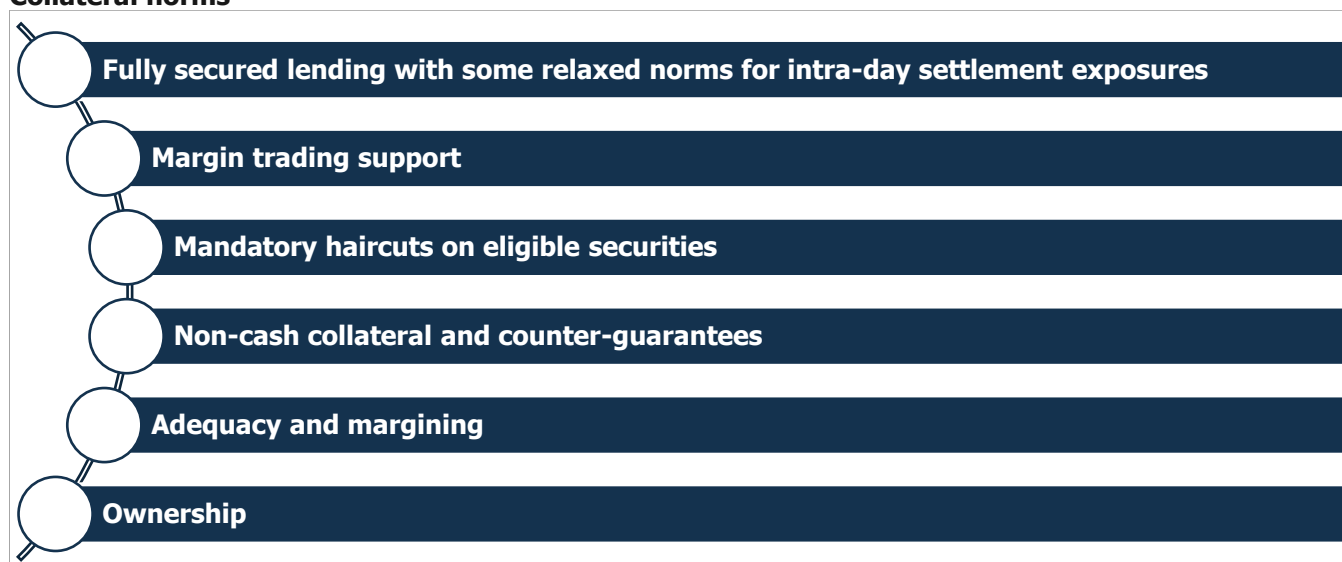
#### Permissible credit facilities:

- Need-based operational funding for day-to-day operations, including general working capital.
- Margin trading finance is undertaken by stockbrokers for their clients, subject to SEBI and RBI norms.
- Overdrafts and credit lines to address settlement-related timing mismatches.
- Market making in equity and debt securities (including government securities); however, securities in which market making is undertaken are not accepted as collateral for such facilities.

- Banks may issue guarantees on behalf of brokers or professional clearing members in favour of exchanges or clearing corporations instead of security deposits or margin requirements, as permitted by exchange regulations. Such guarantees must be backed by a minimum 50% collateral, of which at least 25% must be in cash.
- Working capital for warehousing of debt securities for up to 45 days to fulfil firm client demand or requests.
- Banks may extend guarantees in favour of exchanges/clearing corporations for proprietary trading by CMI, provided such guarantees are fully secured by cash, cash equivalents and government securities, with a minimum 50% cash component.

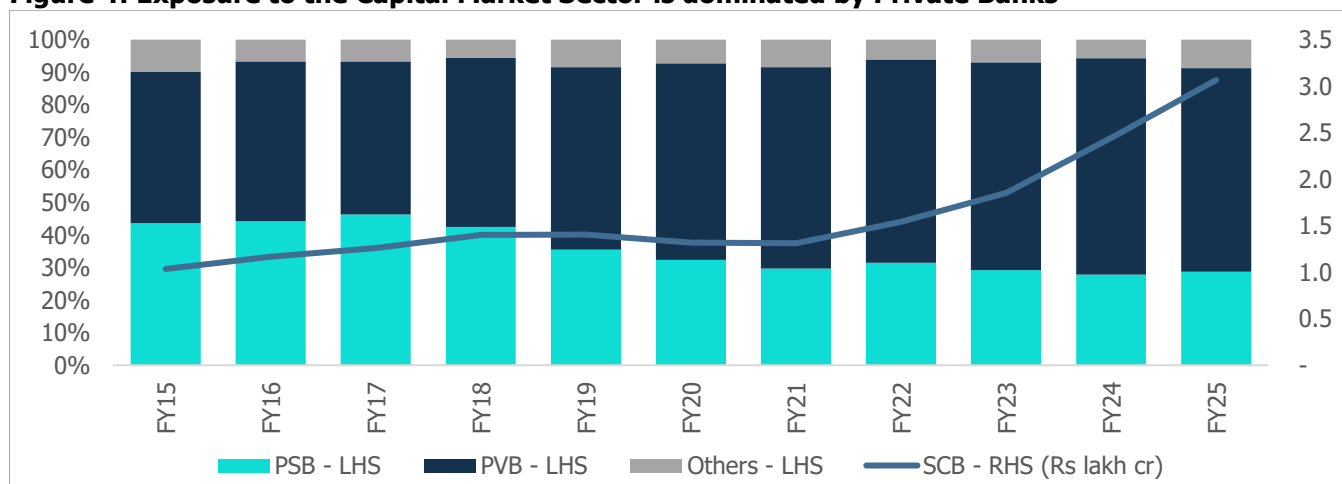
**Prohibited credit facilities:** Banks are expressly prohibited from providing finance for the acquisition of securities on their own account, including for proprietary trading or investment, other than in the limited manner permitted via fully secured guarantees.

**Collateral norms**



**CareEdge View**

**Figure 4: Exposure to the Capital Market Sector is dominated by Private Banks**



Source: RBI

Banks' exposure to the capital market is considered sensitive given the risks inherent in asset price fluctuations. Based on annual accounts data, at the end of March 2025, SCBs' exposure to the capital market, as a share of their total loans and advances at 1.6% or as a percentage of net worth at 10.0%, was higher compared to FY24. PVBs have higher exposure to the capital market than PSBs. Given the cap of 20% direct exposure and 40% exposure, including off-balance-sheet exposure, banks appear to have significant headroom for growth in their capital markets sector.

**Figure 5: Exposure to Capital Market Sector as a % of Network**

Year	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
SCB	11.4%	11.7%	11.3%	11.7%	10.6%	8.9%	7.8%	8.1%	8.5%	9.3%	10.0%
PSB	9.0%	9.7%	10.1%	10.1%	8.4%	6.5%	5.5%	6.1%	6.0%	6.6%	7.3%
PVB	17.8%	17.4%	15.5%	16.4%	14.3%	13.1%	11.0%	11.5%	12.2%	13.0%	13.2%
Others	7.7%	5.7%	5.7%	4.8%	6.4%	4.5%	4.7%	3.5%	4.2%	4.1%	6.9%

Source: RBI

**Figure 6: Exposure to Capital Market Sector as a % of Advances**

Year	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
SCB	1.4%	1.5%	1.6%	1.6%	1.5%	1.3%	1.2%	1.3%	1.3%	1.4%	1.6%
PSB	0.8%	0.9%	1.0%	1.0%	0.8%	0.7%	0.6%	0.7%	0.7%	0.7%	0.8%
PVB	3.0%	3.0%	2.7%	2.7%	2.4%	2.2%	2.1%	2.1%	2.2%	2.4%	2.6%
Others	3.1%	2.2%	2.5%	2.0%	2.6%	1.9%	2.1%	1.6%	1.9%	1.8%	3.0%

Source: RBI

### Acquisition Finance Norms to Support Growth and Safeguard Resilience

The amendments represent a major and forward-looking shift in India's regulatory landscape, particularly in enabling bank-supported strategic acquisitions by domestic companies. By strengthening and clarifying the rules governing acquisition finance, the RBI has created a more structured, predictable, and reliable channel for corporates pursuing growth through mergers, acquisitions, and strategic investments. This comes at a time when Indian companies are increasingly seeking scale, technological capabilities, and global market access through inorganic expansion.

Importantly, the revised framework also reinforces prudential discipline within the banking sector. By clearly defining the boundaries of permissible acquisition funding and embedding stronger safeguards, the RBI ensures that banks avoid excessive risk-taking or aggressive financing practices that could threaten financial stability. This carefully calibrated balance, supporting legitimate acquisition-driven expansion while protecting banks from undue exposure, is central to building a resilient and sustainable acquisition-financing ecosystem.

Corporations benefit through enhanced regulatory clarity and greater certainty in structuring acquisition-related funding. At the same time, banks operate within a more transparent prudential framework that mitigates the risks associated with leveraged or speculative transactions. Historically, most acquisition finance has been routed through overseas branches or provided predominantly by foreign banks. The new framework opens the door for Indian banks to participate meaningfully in high-value acquisition financing, expand their portfolios of securities-backed lending, and strengthen their fee-based income and structured-financing capabilities.

To fully leverage these opportunities, banks will need to invest in strengthened risk-assessment and collateral-management systems, develop specialised teams for acquisition finance and structured credit, and

redesign their internal CME frameworks. These operational upgrades will be essential for banks aiming to expand their presence in this segment while maintaining robust risk controls.

**RBI Framework to Reshape Funding Economics, Collateral Requirements and Liquidity Dynamics**

RBI's new chapter on bank credit to CMIs establishes a more stringent and standardised funding framework. It restricts lending for proprietary trading and leveraged positions, mandates fully secured credit facilities, and imposes minimum collateral haircuts, including a 40% haircut on equity collateral, with all such exposures classified as CME to reinforce risk controls.

Market-support functions such as margin funding, settlement liquidity, market making, and debt warehousing remain permissible but now operate under heightened collateral and exposure requirements, increasing operational demands, particularly during periods of market stress. Proprietary trading desks, in turn, may face reduced access to bank financing and may need to rely more heavily on internal capital or alternative funding sources, potentially impacting trading capacity and market-making depth, especially for smaller intermediaries.

Banks and CMIs must overhaul credit structures, documentation, collateral practices, and monitoring systems ahead of the April 1, 2026, implementation date. With secured funding now more heavily emphasised, flexibility may be constrained, posing additional challenges for smaller or less well-capitalised CMIs.

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