

INDIA LEGAL UPDATE

May 31, 2023

RBI issues Framework for Acceptance of Green Deposits

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April 11, 2023
Effective Date
June 1, 2023
Legal Framework
Reserve Bank of India Act, 1934
Government Authority
Reserve Bank of India
Source Weblink
Framework for Acceptance of Green Deposits

LEGAL UPDATE

To foster and develop a green finance ecosystem in India and to protect the interest of the depositors, RBI has issued the Framework for Acceptance of Green Deposits for the Regulated Entities.

- **Applicability and Important Terms Defined**

- Scheduled Commercial Banks including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks), and
- All Deposits taking NBFCs (Non-Banking Financial Companies), including Housing Finance Companies (HFCs).
- “green deposit” means an interest-bearing deposit, received by the REs (Regulated Entities) for a fixed period and the proceeds of which are earmarked for being allocated towards green finance.
- “green finance” means lending to and / or investing in the activities / projects meeting the prescribed requirements that contribute to climate risk mitigation, climate adaptation and resilience, and other climate-related or environmental objectives - including biodiversity management and nature-based solutions.

Green Deposit Framework

- **Denomination, Interest Rates and Tenor of Deposits**

- REs shall issue green deposits as cumulative / non-cumulative deposits; and upon maturity, it would be renewed / withdrawn at the option of the depositor.
- The green deposits shall be denominated in **Indian Rupees** only.
- The tenor, size, interest rate and other terms and conditions shall be as per the RBI Master Directions on *Interest Rate on Deposits* Directions, 2016; *Acceptance of Public Deposits* Directions, 2016; and *NBFC-Housing Finance Company* Directions, 2021.

- **Policy**

- A comprehensive Board-approved policy shall be put in place on green deposits providing all the aspects related to issuance and allocation.
- A copy of the Policy on green deposits shall also be made available on the REs website.

Financing Framework

- **Board-approved Financing Framework (FF) shall cover:**

- the eligible green activities / projects that could be financed out of proceeds raised through the green deposits;
 - the process for project evaluation and selection by the RE (i.e., climate-related or environmental objectives);
 - the allocation of proceeds of green deposits and its reporting, third-party verification / assurance of the allocation of proceeds and the impact assessment; and
 - the particulars of the temporary allocation of green deposit proceeds, pending their allocation to the eligible activities / projects.
- A copy of the 'Financing Framework' shall also be made available on the website of the RE.
 - The RE shall also arrange to carry out an external review of its Financing Framework and the same shall be made available on its website before implementation of the Framework

Use of Proceeds

- The allocation of proceeds raised from green deposits shall be based on the official Indian green taxonomy.
- REs shall be required to allocate the proceeds raised through green deposits towards the list as provided in the Framework of green activities / projects which encourage energy efficiency in resource utilisation, reduce carbon emissions and greenhouse gases, promote climate resilience and / or adaptation and value and improve natural ecosystems and biodiversity.

Third-Party Verification/Assurance and Impact Assessment

- The allocation of funds raised through green deposits by REs during a financial year shall be subject to an annual independent Third-Party Verification / Assurance.
- The third-party assessment would not absolve the RE of its responsibility regarding the end-use of funds.
- The Third-Party Verification / Assurance Report shall cover:
 - Use of the proceeds to be in accordance with the eligible green activities / projects.
 - The REs shall monitor the end-use of funds allocated against the deposits raised.
 - Policies and Internal Controls, such as project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower to the REs and Reporting and Disclosures.

- REs, with the assistance of external firms, shall annually assess the impact associated with the funds lent for or invested in green finance activities / projects through an Impact Assessment Report.
- It shall be undertaken voluntarily for FY 2023-24 and from FY 2024-25 onwards it shall be a mandatory requirement.
- The Report of the Third-Party Verification / Assurance and Impact Assessment Report shall be placed on REs website.

Reporting and Disclosures

- A review report shall be placed before the Board within three months of the end of the FY, covering:
 - the amount raised under green deposits during the previous FY;
 - list of green activities / projects to which proceeds have been allocated, along with a brief description of the projects;
 - the amounts allocated to the eligible green activities / projects;
 - a copy of the Third-Party Verification / Assurance Report and the Impact Assessment Report.
- REs shall make appropriate disclosures in their Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds as per the prescribed proforma.

Queries?

If you have any queries about this article, please reach out to our experts:



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