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ABSTRACT

This note summarises, compares, and analyses the draft Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026, with the requirements in the existing directions. The proposed amendment introduces significant changes in Pillar 3 disclosure requirements. It aims to align the existing disclosures with Basel-style Pillar 3 disclosures. The key changes impact disclosure aspects such as the format of the table/template used for presenting information, the level of granularity of information, narrative information, the frequency of disclosures, risk management processes, and the key risk metrics dashboard. It strengthens the governance around disclosures by increasing oversight and accountability of the board and senior management towards internal control processes, review mechanisms, and approvals. The proposed amendments shall come into effect from the quarter ended September 30, 2026. It is a crucial step towards providing transparent, meaningful, consistent, and comparable information on the prudential position of banks to the market participants. It will mitigate information asymmetry, increase confidence of the users, and instill market discipline in the system.

Keywords: Basel Pillar 3 disclosures, Capital adequacy, Comparability, Information Asymmetry, Key risk metrics, Prudential position.

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1. Introduction

This note analyses the draft Amendment Directions on Pillar 3 disclosure requirements – *Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026*. The proposed amendment aims to align existing Pillar 3 disclosures by banks with Basel Pillar 3 disclosure requirements. The fundamental tenet of Pillar 3 disclosures is to promote market discipline by disclosing transparent and meaningful information to the stakeholders. The disclosures about the bank’s business, risk exposure, adequacy of regulatory capital, key metrics, and risk management processes mitigate information asymmetry and ensure comparability. The proposed amendment is a decisive step toward enhancing transparency in disclosures and is imperative for building a sound banking system.

The proposed amendment has a broader scope as it applies to both listed and unlisted banks. This ensures that all banks are contributing towards enhancing the transparency of disclosures. Pillar 3 disclosure requirements are applicable at the top consolidated level. However, it applies on a stand-alone basis if a bank is not the top consolidated entity. The amendment proposes significant changes in existing Annex III (Pillar 3 disclosures) by introducing Basel-style templates and tables. Particularly, the level of granularity of information and qualitative explanations has increased significantly. Thus, the proposed changes in the disclosure requirements emphasise substance over form. It goes beyond formats to reshape the way banks disclose information on prudential position to the stakeholders. The proposed amendments shall come into effect from the quarter ended September 30, 2026.

The note is structured as follows: Section 2 summarises the proposed amendments, Section 3 identifies and analyses the newer elements in the proposed amendments, and Section 4 discusses the implications of the proposed amendments.

2. Summary of the proposed amendment

2.1. Annex III (Pillar 3 disclosures)

The proposed amendment introduces significant changes to the existing Annex III. Annex III is part of *Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025*. It outlines Pillar 3 disclosure requirements. The existing Annex III follows the DF table format for disclosing information, while the proposed format is based on Basel-style standardised templates and tables. The numbering and title of templates and tables are aligned with Basel Pillar 3 requirements. This ensures consistency and comparability across jurisdictions.

The proposed amendment clearly distinguishes between fixed and flexible templates/tables. Banks are required to follow the fixed templates/tables as specified in Annex III. They can, if necessary, provide additional information in fixed templates/tables with supporting explanation. Additional information, however, cannot replace metrics/information specified by fixed templates/tables. It proposes standardised formats for disclosing quarterly information on key metrics, risk-weighted assets, leverage ratio, and liquidity ratios. Quarter-on-quarter standardised information on key metrics enables market participants to compare and analyse the prudential position of banks across years.

The proposed disclosure framework places a greater emphasis on disclosing qualitative information. Banks are required to describe in detail their approach towards overall risk management, remuneration policies, credit risk mitigation techniques, counterparty credit risk management, securitisation exposures, market risk management, interest rate risk, operational risk management, operational resilience, liquidity risk management, and explain the differences between financial accounting and regulatory exposure amounts. Furthermore, each piece of quantitative information requires an accompanying narrative clearly explaining the reasons for change in the metrics/figures between two reporting periods. Banks can withhold proprietary and confidential information. However, they will have to explain why the information was withheld. This will allow the market participants to comprehend changes in a better way.

The amendments clearly specify the frequency and timing of different disclosures in terms of concurrent, quarterly, semi-annually, and annually. It also underscores the importance of easy accessibility of information. The bank will now be required to have a dedicated section on regulatory disclosure on its website. The link for the same should be displayed prominently on the home page. Banks are expected to have at least 10 years of archived data of Pillar 3 reports on their website. This will allow market participants to easily locate and access the information for decision-making.

2.2. Guiding principles for disclosures

The amendment introduces five guiding principles for disclosures, namely, clarity, comprehensiveness, meaningfulness, consistency, and comparability. Clarity emphasises that disclosures should be clear, understandable, and accessible. Comprehensiveness stresses on communicating all the significant qualitative and quantitative information about the prudential position of the bank. Meaningfulness indicates that information that is relevant and valuable to users should be disclosed. Consistency underscores that information should be consistent across different reporting periods to enable users to track and identify trends. Comparability focuses on the presentation of information in a manner that is comparable across banks over time. Banks should apply these principles for both mandatory and voluntary disclosures. The fixed and flexible templates/tables are also anchored around these principles.

2.3. *Board-level oversight*

Another striking feature of the proposed amendment is the role of bank-level governance in ensuring Pillar 3 disclosure requirements are adhered to. It requires banks to have internal control processes in place for Pillar 3 disclosures. Such processes and policies should be approved and reviewed by the board of directors. It also requires assurance for Pillar 3 disclosures comparable to that of assurance for financial reporting information, such as Management Discussion & Analysis. Furthermore, one or more whole-time directors should attest in writing that the Pillar 3 disclosures are as per the policy and internal control processes agreed upon by the board. This step is crucial to ensure board-level oversight and senior management accountability towards Pillar 3 disclosures.

3. Newer elements in the proposed amendments

3.1. *Annex III for Pillar 3 disclosure requirements*

The proposed amendment introduces significant changes to the existing Annex III (Pillar 3 disclosures). The proposed structure moves away from Table DF1 to DF 18 to Basel style tables/templates such as KM1, OVA, OV1, etc. The proposed Annex has 13 sections. Each section specifies the format of the relevant table and/or template. The proposed structure has significantly increased the quantitative as well as qualitative disclosures. It introduces the quarterly key metrics dashboard (KM1), risk-weighted assets, linkage between accounting and regulatory exposures, prudent valuation adjustments (PVAs), macroprudential supervisory measures, liquidity coverage ratio, and net stable funding ratio. In some cases, it subsumes or deletes disclosures such as the Equities (banking book) table and disclosure on full terms and conditions. Table 1 maps existing DF Tables with the proposed Basel-style templates/tables. It also highlights the similarities and differences between the two.

Template KM1 – Key Metrics (at consolidated group level) is one of the most important additions in the proposed framework. This template serves as the key metric dashboard. It provides information on all the prudential indicators such as CET1, RWA, capital ratios, leverage ratio, liquidity coverage ratio, and net stable funding ratio. This dashboard is to be published quarterly with comparative data for the last four quarters. The comparative data enables the users to analyse the trends easily.

The disclosures on the bank's risk management approach have undergone significant changes. Table OVA – Bank Risk Management Approach requires a detailed description of the bank's risk management strategy, views of the board of directors on assessment and management of risks, the bank's risk tolerance, risk governance structure, risk measurement systems, stress testing, and hedging and mitigation of risks. It highlights the internal governance and board oversight over risk management processes.

Furthermore, Template OV1 – Overview of RWA is also a major addition. It requires the banks to present the RWA for credit risk, counterparty risk, credit valuation adjustment, settlement risk, securitisation exposures, market risk, and operational risk separately. Such

a breakdown enables the market participants to analyse the important drivers of capital requirements. It also requires banks to report the comparative data of the previous quarter.

Table LIA – Explanations of differences between accounting and regulatory exposure amounts, Table LIB – Outline of the differences in the scope of consolidation (entity by entity), Template LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories, Template LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements and Template PV1 – Prudent valuation adjustments (PVAs) strengthens the linkage between financial statements and regulatory exposures. These templates/tables explain the differences between accounting amounts and regulatory exposure amounts.

The existing remuneration disclosures are substantially expanded and split into tables/templates. Such increased disclosures help understand the interplay between governance, executive compensation, incentives, and risk management. The existing credit risk tables are replaced with more detailed Basel-style tables and templates. Such tables and templates require granular and structured information on the credit quality of assets, credit risk mitigation techniques, and exposure by asset classes and risk weights.

The proposed framework substantially expands disclosures related to counterparty credit risk. The tables and templates capture quantitative as well as qualitative information related to counterparty credit exposure, risk weights, collateral, derivative exposures, and securities financing transactions. The amendment also proposes major changes in securitisation exposure-related disclosures. It requires a clear distinction between banking book and trading book securitisation exposures. It also requires distinguishing the bank's role as originator and investor. Such disclosures will enable users to understand capital requirements arising from securitisation.

Another major addition is Table LIQA – Liquidity risk management, Template LIQ1 – Liquidity coverage ratio (LCR), and Template LIQ2 – Net stable funding ratio (NSFR). These tables/templates relate to liquidity risk management. They require banks to disclose both quantitative metrics and qualitative information about liquidity risk management, such as governance, funding strategy, risk mitigation techniques, contingency funding, concentration limits, and liquidity exposures, among others.

3.2. Guiding principles

The proposed amendments move from a general disclosure principle to five guiding principles, namely, clarity, comprehensiveness, meaningfulness, consistency, and comparability. The general principle focused on having a board-approved disclosure policy that outlines what to disclose, internal controls for disclosure, validation, and frequency. The scope of the guiding principle is much broader.

3.3. Responsibility of the board of directors

Board-level accountability and oversight are an integral part of the proposed amendments. The board is expected to approve policy and internal control mechanisms for Pillar 3 disclosures. In a major move towards increasing accountability, one or more whole-time directors will be required to attest that disclosures are as per the agreed-upon policy and internal controls.

3.4. Regulatory disclosure section

One of the elements of the guiding principles of disclosure is accessible information. The proposed amendments require the banks to have a dedicated disclosure section with an archive of at least 10 years of Pillar 3 data. The link for the same is required to be displayed on the home page. The bank may or may not append it with financial statements. However, the central idea is it should be easily locatable and accessible. It is a significant step to strengthen public disclosure of data and ensure comparability.

3.5. Control vs. flexibility in disclosures

The proposed amendments specify formats for templates/tables for disclosing information. Each template/table is indicated as fixed or flexible. Thus, banks can exercise discretion over the presentation and disclosure of proprietary and confidential information. However, when banks withhold information, a proper explanation for the same should be included in the disclosures. This flexibility enables banks to strike a balance between transparency and confidentiality.

3.6. Narrative disclosures

The proposed amendment places heightened focus on narrative and qualitative information. Banks will be required to supplement quantitative information with narrative explanations. Banks will be required to disclose qualitative information regarding risk management processes, exposures, remuneration policies, management views, key drivers of changes in metrics between two reporting dates, etc. Emphasis on such qualitative disclosures will play a vital role in moving away from static reporting to analytical reporting.

3.7. Frequency and timing of disclosures

The proposed amendment specifies clearly the frequency and timing of various disclosures. It describes clearly the retrospective disclosures, permissible time lag for publishing information, and disclosure of transitional metrics.

4. Implications for the banking sector

The proposed amendment requires banks to disclose more structured, standardised, granular, and timely information on key metrics, capital, risk-weighted assets, exposures, liquidity ratios, and leverage ratios. Thus, Pillar 3 disclosure will require more preparedness and robust internal controls. Frequent reporting will also require regular validation of data and increase the compliance burden.

Board-level oversight and accountability will strengthen governance around Pillar 3 disclosures. The attestation of information disclosed by one or more whole-time directors will ensure that information is faithfully represented and supported by robust internal control processes. It will also increase reputation risk for the directors.

Reporting teams, finance and accounting teams, risk management functions, treasury and asset-liability management functions, internal audit, compliance, and assurance functions of banks will have a significant impact due to the proposed amendments. Adhering to the disclosures' requirements will demand stronger coordination among different departments. It will also have a substantial impact on the information systems and technology used by the banks for data management and reporting.

Market participants such as investors, rating agencies, and analysts will immensely benefit from the revised disclosure framework. They will have ready access to structured and detailed information on the prudential position of the bank. It will enable them to compare information within and across banks. On the other hand, it will incentivise banks to improve their market perception and reputation by disclosing meaningful information about key risk metrics, strong governance, and robust risk management processes.

In summary, the proposed amendments will positively impact market discipline by ensuring transparency in disclosures. It will reduce information asymmetry and provide comparable information to the market participants. At the same time, it will increase reporting and compliance efforts, governance, and cost. This move by RBI signifies a clear intention to move away from compliance-driven reporting to more analytical and market-facing reporting.

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Table 1
Comparison of Existing DF Tables and Proposed Basel Style
Templates/Tables

<i>Existing DF Tables</i>	<i>Proposed Amendments</i>	<i>Changes</i>
DF-1 Scope of application	LIB, LI1, LIA	Unchanged but reorganised and extended
DF-2 Capital adequacy	KM1, OV1, CC1	Replaced by comprehensive dashboard on key metrics, risk weighted assets and capital templates
General qualitative risk disclosure	OVA plus CRA, CCRA, SECA, MRA, ORA, IRRA	Reorganised into specific risk wise tables
DF-3 Credit risk: general disclosures	CRA, CR1, CR2, CRB	Extended
DF-4 Credit risk: standardised approach	CRD, CR4, CR5	Extended
DF-5 Credit risk mitigation	CRC, CR3	Extended
DF-6 Securitisation	SECA, SEC1, SEC2, SEC3, SEC4	Significantly extended
DF-7 Market risk	MRA, MR1	Extended
DF-8 Operational risk	ORA	Added operational resilience
DF-9 IRRBB	IRRA	Unchanged but more standardised
DF-10 Counterparty credit risk	CCRA, CCR1, CCR2, CCR3, CCR4, CCR5, CCR6	Significantly expanded

<i>Existing DF Tables</i>	<i>Proposed Amendments</i>	<i>Changes</i>
DF-11 Composition of capital	CC1	Minor changes
DF-12 Capital reconciliation	CC2, LI1, LI2	Extended and integrated
DF-13 Main features of capital instruments	CCA	Renamed
DF-14 Full terms and conditions	No specific template but should be disclosed on website	Deleted
DF-15 Remuneration	REMA, REM1, REM2, REM3	Disintegrated and expanded
DF-16 Equities - banking book	No specific equivalent table/template	Partly subsumed
DF-17 Leverage summary comparison	LR1	Renamed
DF-18 Leverage common template	LR2	Renamed

Source: Compilation by author