

# ORBIT'S LEGAL PULSE



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# Policy Insights



## RBI's Master Directions on Non-Fund Based Credit Facilities

The Reserve Bank of India (RBI) has issued the Reserve Bank of India (Non-Fund Based Credit Facilities) Directions, 2025 ("Direction"), consolidating all the regulatory framework governing guarantees, letter of credit, co-acceptances and partial credit enhancements. This Direction will be effective from April 01, 2026 and will be applicable to all the Regulated Entities (REs) which includes commercial banks, co-operative banks, all-India financial institutions (AIFIs) etc.

The Direction will bring all the FIs, and specified NBFCs together while bringing together decades of fragmented circulars into a unified code for issuing non-fund based (NFB) credit facilities.

### **Background: From Dispersed Circulars to Unified Norms**

Before the Direction, the regulation of non-fund based (NFB) facilities were based on a patchwork of circulars, some dating back to the late 1960s. Separate norms existed for different entities like commercial banks, urban co-operative banks, NBFCs, and AIFIs, which often overlap with each other's provisions, varying thresholds, definitions, and procedural requirements. This multiplicity created interpretational ambiguities and compliance challenges, especially in inter-bank or cross-segment transactions.

The RBI's annexure lists over 70 circulars for commercial banks and more than a dozen for co-operative banks that stand repealed. These covered areas such as unsecured advances, bank guarantees for trade and infrastructure, guidelines on payment of invoked guarantees, norms for guarantees on behalf of brokers, and specific instructions for Partial Credit Enhancements ("PCE") to corporate bonds. The new Direction will replace these with a harmonized and principle-based framework.

### **Key Provisions in the New Directions**

- **General Conditions**

As per the Direction, the REs must now incorporate NFB facility norms into their credit policies, covering sanction limits, appraisal standards, security requirements, fraud prevention, and monitoring. A fundamental condition is that an NFB facility may generally be issued only to a borrower who also enjoys a funded credit facility with the RE with exceptions for derivative contracts, PCEs, counter-guarantee backed instruments, certain fully secured exposures, or where a no-objection is obtained from the lender/bank. This maintains the prudential link between contingent exposures and ongoing customer relationships, a principle also present in earlier norms but now codified with expanded exceptions.

- **Guarantees**

Guarantees must be irrevocable, unconditional, and payable on demand without demur. Internal ceilings must be set for total and unsecured guarantees, with explicit

asset-based capping for smaller banks and co-operatives (5% of total assets for guarantees, 1.25% for unsecured). These limits existed in earlier guidelines for co-operatives and RRBs but are now clearly stated with compliance timelines.

The Directions restrict issuing guarantees favouring another RE for extending fund-based credit except for trade-related transactions. Rules for timely honouring of invoked guarantees are reinforced, echoing earlier RBI insistence on immediate settlement but now framed as a binding obligation unless stayed by court order.

A notable concept which is included in the Direction is the operational risk framework for electronic guarantees, mandating straight-through processing integration with e-guarantee platforms, segregation of duties, access controls, and inclusion in concurrent audit, a significant upgrade over legacy manual processes.

- **Co-Acceptances**

Under the Direction, only genuine trade bills can be co-accepted, and

REs must ensure goods are actually received. Earlier provisions existed in scattered form, but the new rules consolidate them and expressly forbid co-acceptance of bills already funded elsewhere, reducing the risk of double financing.

- **Partial Credit Enhancement (PCE)**

As per the framework for PCE which are earlier issued in phases from 2015 to 2018 for corporate bonds, and later extended to NBFCs and HFCs, is now consolidated with uniform eligibility, capital treatment, and exposure norms. Now under the Direction, the PCE can only be extended to bonds with at least BBB rating pre-enhancement, backed by two ratings; limits are set at 50% of issue size for a single RE, with aggregate PCE capped at the same.; exposure to PCE across all bonds is capped at 20% of Tier 1 capital.; further the drawn PCE must be repaid within 30 days; overdue for 90 days or more becomes NPA, triggering asset classification for other exposures to the borrower. Also an additional safeguard applied to NBFC/HFC bonds proceeds must refinance existing debt, and the tenor must be at least three years, and exposure per issuer capped at 1% of capital funds.

- **Disclosures and Transparency**

For the first time, a uniform disclosure format is prescribed for NFB facilities, bifurcating the secured and unsecured portions across various categories like domestic guarantees, overseas guarantees, acceptances, and other obligations.

### **Significance of the Direction**

By consolidating decades of instructions, RBI had reduced the compliance fragmentation and regulatory arbitrage between different classes of REs. The emphasis on technological integration for e-guarantees aligns with the broader digital governance goals, while the structured approach to PCE could deepen corporate bond market participation without diluting the prudential safeguards.

### **Conclusion**

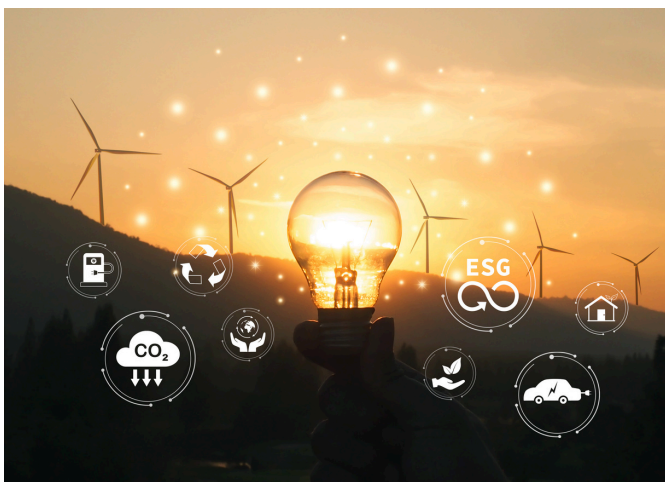
The Direction signifies more than just a regulatory compliance and revisions. They modernize a critical segment of banking operations, tighten operational risk controls, and provide a consistent prudential baseline across diverse lenders. For banks, NBFCs, and co-operatives, compliance will require revisiting credit policies, upgrading technology platforms, but the long-term payoff could be a safer, more transparent, and more efficient system for managing contingent credit risk for the finance sector.

The momentum of India's clean energy mission continues to expand its aim is to install 500 GW of non-fossil fuel capacity by 2030. The incentives to increase the production of renewable energy as well as its consumption is being provided by Government. The Central Government in October 2023 set a minimum non-fossil energy consumption requirement under the Energy Conservation Act, 2001 for certain non-fossil fuel consumers like distribution licensees, open-access users, and captive power plants. These Renewable Energy Consumption Obligations (RCOs) will be met by direct procurement of renewable energy, through Renewable Energy Certificates (RECs), if not done then there will penalties for non-compliance. The Central Electricity Regulatory Commission (CERC), by understanding the need for additional compliance mechanisms, has issued a draft proposal for Virtual Power Purchase Agreement ("VPPAs") in May 2025 for creating a structured path for large commercial and industrial buyers. Common offshore, this approach allows consumers greater flexibility in meeting renewable purchase obligations and provides renewable energy producers with more predictable income streams.

## **Virtual Power Purchase Agreements: CERC's New Framework For Renewable Compliance**

### **Origins of the VPPA Framework**

The idea of implementing VPPAs in India came from a study of international practices and how they allow large consumers to fulfil renewable requirements without actually receiving renewable electricity physically. CERC sought a preliminary clarification from SEBI as to whether SEBI has jurisdiction on the regulation. In January 2025, SEBI clarified that VPPAs are



bilateral, non-transferable, non-tradable over-the-counter contracts with specific delivery obligations. Hence, they are under the jurisdiction of CERC. In March 2025, the Ministry of Power sent a letter to CERC asking to develop the statutory policy for VPPAs qualified as Non-Transferable Specific Delivery contracts.

### **Understanding a VPPA**

A Virtual Power Purchase Agreement defines a lasting financial agreement between a consumer and a renewable energy generator. All the parties fix a VPPA price for each kilowatt hour of energy consumed. The Generator of electricity participates in a power exchange or an authorised market as per the Electricity Act of 2003. The parties to the VPPA compare the financial difference of the agreed price and the market price and settles it either transactionally or financially. The consumer subsidizes the generator in case the market price is cheaper, and the opposite is true if the market price is higher. In addition to the financial arrangement, the generator receives Renewable Energy Certificates for the electricity produced. The generator then transfers these RECs to the consumer. The consumer uses these RECs to claim compliance or derive the claimed green attributes of the power. But these kinds of RECs are non-transferable, reinforcing compliance and ensuring they cannot be resold or traded.

### **Implementation Arrangements**

According to these draft guidelines, VPPAs may be concluded between a consumer and a renewable generator directly, through a licensed trader, or through a registered over-the-counter market. The renewable project associated with the VPPA must comply with the CERC REC Regulations, 2022. The electricity generated pursuant to the agreement may be marketed in the Day-Ahead Market, Real-Time Market, or other approved markets.

In compliance with the guidelines, the VPPAs' RECs must be credited and cancelled in the REC registry. The VPPA contracts are also non-tradable and non-transferable and thus the parties are bound for the duration of the contract.

### **Payment and Settlement**

The payment mechanism under a VPPA is based on the difference between the VPPA price and the market price at which the electricity is sold. This settlement is handled bilaterally in accordance with the terms agreed upon in the contract which is about providing revenue certainty for the generator and cost predictability for the consumer. The generator as well as the buyers may consider hedging mechanisms, including financial derivatives, to manage risks associated with their exposure to market price fluctuations, such derivative instruments can provide additional price certainty beyond the VPPA structure, particularly in volatile market conditions.

### **Conclusion**

The CERC's draft guidelines come as a timely and much-needed step in advancing India's renewable energy transition. By formally recognising VPPAs within the Indian legal framework and clarifying how they will be regulated, the draft paves the way for greater participation from commercial and industrial consumers in the renewable energy market. While it successfully addresses important questions around jurisdiction and contract structure, it leaves some areas underdeveloped, such as robust monitoring systems, detailed dispute resolution processes, and broader risk management measures. These gaps will need to be filled either in the final version of the guidelines or through subsequent implementation provisions. For VPPAs to succeed, ensuring competitive pricing will be essential, particularly in an energy market still shaped by long-term commitments to thermal power.

# Emerging Trends



## The Reserve Bank of India's 2025 Co-Lending Arrangements Directions: A Regulatory Shift towards Shared Lending Responsibility

On August 6, 2025, the Reserve Bank of India (RBI) issued final co-lending guidelines named the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025 through circular RBI/DOR/2025-26/139. The guideline will come into action from January 1, 2026. The main objective of these guidelines is to establish a single, comprehensive regulatory framework that permits banks

and Non-Banking Financial Companies (NBFCs) to collaborate and extend credit together through structured co-lending arrangements. It marks as a significant evolution in India's co-lending regulatory regime, particularly with the introduction of a shared minimum loan retention requirement for regulated entities (REs). The purpose of these Directions is to promote clarity in operations, encourage balanced risk sharing and reinforce safeguards for borrower within joint lending framework.

### **What are Co-Lending Arrangements (CLA)?**

A Co-Lending Arrangement (CLA) is a formal agreement made in advance between an originating regulated entity (RE) and a partner RE to jointly fund a portfolio of loans, which may be either secured or unsecured, in mutually agreed ratios. This agreement should clearly outline the terms for sharing revenue, dividing risks, and adhering to the relevant regulatory requirements. The scope of lending services within a CLA includes activities such as sourcing customers, evaluating creditworthiness, setting loan terms, managing accounts, overseeing repayments, and handling recoveries. These functions may be carried out directly by the REs or through their authorised agents, in line with the Reserve Bank of India's Master Direction on Outsourcing of Financial Services.

### **Repeal of the 2020 Circular and Introduction of a Comprehensive Framework**

The earlier framework on Co-Lending by Banks and NBFCs to Priority Sector issued dated November 5, 2020, introduced the "Co-Lending Model" (CLM) with the aim of improving credit flow to the unserved and underserved sectors of the economy by leveraging banks lower cost of funds and NBFCs greater outreach. Under that framework, NBFCs were required to retain a minimum of 20 per cent share of individual loans, and the focus remained confined to

priority sector lending. With the passage of time, however, there was a need for a broader and more comprehensive framework to cover co-lending arrangements beyond priority sector and to provide greater regulatory clarity on operational, prudential, and customer protection aspects. Accordingly, this circular has now been repealed and replaced by the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025, which widen the scope of co-lending while also revising certain prudential requirements such as reducing the minimum retention to 10 per cent.

### **Applicability and Scope**

The Directions apply to commercial banks (excluding small finance, local area, and regional rural banks), all-India financial institutions, and NBFCs (including housing finance companies). They also extend to co-lending within digital lending structures, ensuring harmony with the RBI (Digital Lending) Directions, 2025. The structure excludes multiple banking, consortium lending, and syndication arrangements.

- **Minimum Loan Retention Requirement**

The revised rules require every regulated entity to retain at least 10% of each loan on their own books, ensuring both partners share the risk. Credit policies must also be updated to set exposure limits, define borrower segments, vet partners, and include clear grievance redressal processes.

- **Credit Policy and Operational Controls**

REs must embed CLA-specific provisions in their credit policy, including portfolio limits, target segments, due

diligence of partners, and grievance redressal mechanisms. Agreements must detail borrower selection criteria, fees, responsibilities, and information-sharing timelines.

- **Agreements under Co-Lending**

Under a Co-Lending Arrangement, two levels of agreements are required. First, the originating RE and the partner RE must enter into an ex-ante agreement specifying terms such as borrower selection, product lines, responsibilities, information-sharing, fees, and grievance redressal. Second, a loan agreement is executed with the borrower, which must clearly disclose the roles and responsibilities of each RE, identify the single point of interface with the customer, and include all relevant details of the arrangement. The borrower's explicit consent must be obtained, and all disclosures must be made upfront in line with the RBI's Key Facts Statement framework.

- **Borrower Disclosures and Customer Protection**

Loan agreements must clearly identify each RE's role and designate a single point of interface with the borrower. The framework integrates the April 15, 2024 Key Facts Statement (KFS) for Loans & Advances circular, ensuring borrowers are informed about interest rates, fees, and grievance redressal mechanisms upfront.

- **Interest Rate Framework**

Borrowers will be charged a blended interest rate calculated as the weighted average of rates charged by each RE, proportional to their funding share. Any additional charges must be factored into the Annual Percentage Rate (APR) and disclosed in the KFS. Loan shares must be transferred to the partner RE within 15 calendar days of disbursement. If not, the originating RE retains the loan and may transfer it only under the Master Directions Transfer of Loan Exposure, 2021.

- **Default Loss Guarantee (DLG) Cap and Asset Classification Norms**

Originating REs may provide a DLG up to 5% of loans outstanding, aligning with the Digital Lending Directions and preventing excessive risk transfer. Asset classification must be applied at the borrower level for both REs. If one RE categorises a borrower's exposure as Special Mention Account (SMA) or Non-Performing Asset (NPA), the same classification applies to the partner RE.

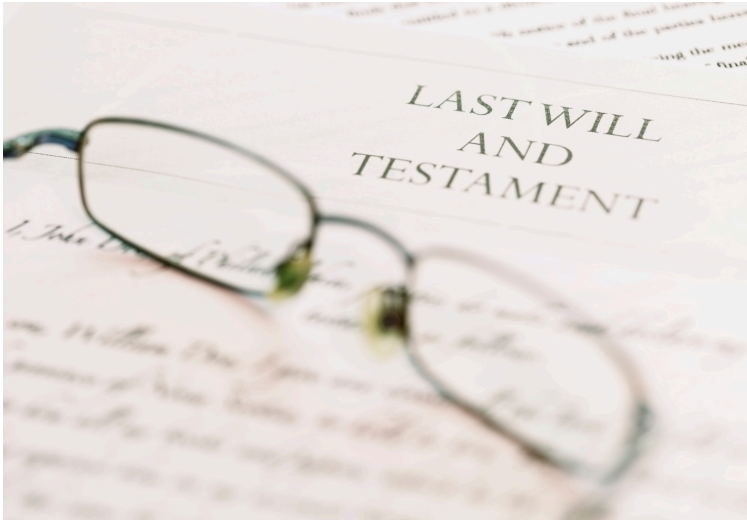
Reporting and Disclosures

In addition to these prudential requirements, each RE must report its loan share to credit information companies (CICs) and disclose active CLA partners on its website. The aggregate details about CLAs has to be reported in the financial statements, including interest rates, fees, and performance of loans as well as the relevant details concerning DLG. CLA loans, internal audits, and statutory audits are potential measures to promote the protection of borrowers in the event the CLA is terminated.

## Conclusion

The 2025 Co-Lending Arrangements Directions represent a pivotal shift in India's credit market regulation. Co-lending offers distinct advantage for all stakeholders. For banks, it enables deeper outreach into underserve and remote areas by leveraging the NVFCs last mile presence, while also helping them meet priority section lending targets more efficiently. For NBFCs, it provides access to lower cost funds and allows credit risk to be shares with banking partners, strengthening their lending capacity. For borrowers, it often translates into more affordable credit driven by competitive interest rates, along with loan products tailored to local needs, as NBFCs tend to design flexible offerings suited to the realities of their markets.

# Judicial Precedents



## Family Feud Ends: Supreme Court Validates Will

After a long 34-year battle, the Supreme Court of India finally settled the family feud in *Metpalli Lasum Bai v. Metpalli Muthaiah* on 21 July 2025. The dispute, over agricultural lands including a 4-acre plot in Dasnapur village, pitched Rajanna's second wife, Lasum Bai, against his son from the first marriage, Muthaiah, over the validity of a Will and an alleged family settlement. In a decisive ruling, the Court restored the trial court's decree in Lasum Bai's favor, overturning the High Court's partial curtailment of her rights, bringing an end to decades of legal dispute.

### Issues Before the Court

1. Whether the registered Will dated 24 July 1974 in favor of Lasum Bai was genuine and legally enforceable.
2. Whether the disputed properties were joint family assets, limiting Rajanna's testamentary power.
3. Whether the alleged oral family settlement between Rajanna, his son Muthaiah, daughter Rajamma, and Lasum Bai was valid.
4. Whether Lasum Bai's ownership under the Will was absolute or restricted, as held by the High Court.
5. Whether sale made by Lasum Bai to third parties conveyed valid title despite Muthaiah's objections.

### Findings of the Courts

In 1994, the District Judge of Adilabad (Telangana), upheld the validity of Rajanna's Will, observing that he executed it with a sound mind. The court noted that evidence, including admissions by Muthaiah, confirmed the Will aligned with the family arrangement, declaring Lasum Bai the rightful owner and granting her a permanent injunction against Muthaiah. However, in 2014, the Andhra Pradesh High Court partially overturned this decision, holding that the properties were joint family assets, restricting Lasum Bai to a one-fourth share, granting Muthaiah three-fourths, and denying her an injunction over the property.

### Supreme Court (2025): The Supreme Court reinstated the trial court's decree, holding:

- **Registered Will Presumption:** A registered Will is presumed to be genuine. The defendant admitted that the signatures were of the testator (i.e. Person who has made a will), and no strong evidence was presented to challenge its authenticity.
- **Consistency with Family Arrangement:** Both the Will and the alleged oral family arrangement reflected similar distributions of property, reinforcing the Will's genuineness.
- **Admissions by Defendant:** The defendant acknowledged the plaintiff's possession of the property and prior sales from her share, weakening claims of forgery.
- **Validity of Sale:** Sale Deeds executed in 1987 and 1994 were valid. By failing to challenge them in a timely manner, the defendant was stopped from later disputing ownership.
- **High Court's Error:** The appellate court erred by substituting its own opinion for the trial court's evidence-based findings.

### Conclusion

The Supreme Court's decision affirms critical principles in Indian succession law:

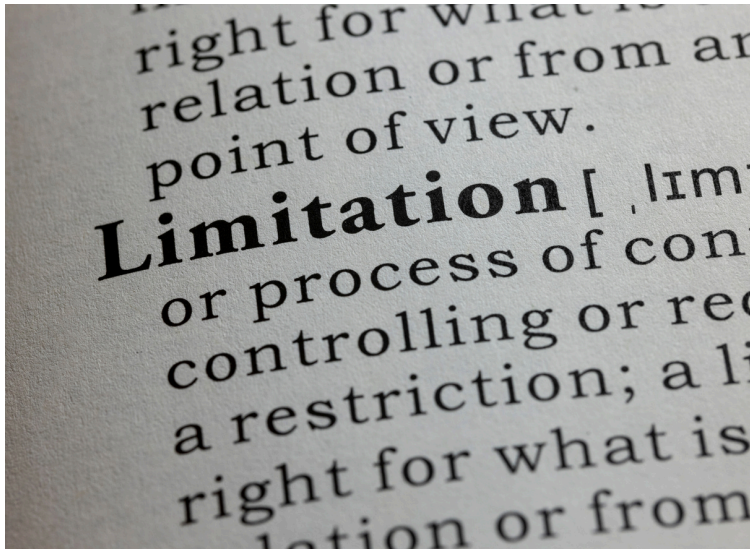
1. **Sanctity of Registered Wills:** A registered Will carries a strong presumption of authenticity, placing the burden of proof on challengers.

2. Evidentiary Value of Family Arrangements: Oral family settlements, when corroborated by possession and conduct, can reinforce testamentary (i.e. something that was created, appointed, or provided for by a will) intention.
3. Appellate Caution: Courts must exercise restraint in overturning trial court findings grounded in careful evidence appraisal.

Ultimately, the Supreme Court vindicated the plaintiff's rights and upheld the testator's foresight in equitable property distribution through a registered Will. The judgment also protects bona fide purchasers who rely on valid testamentary documents. It serves as a guiding precedent for future disputes involving Wills, oral family arrangements, and property transactions executed decades earlier, emphasizing certainty, fairness, and the sanctity of testamentary documents in Indian law.



# The Insolvency Insider



## No 12-year window: NCLAT upholds strict limitation for IBC proceedings against Personal Guarantors

The National Company Law Appellate Tribunal (NCLAT), Principal Bench, New Delhi, in its judgment dated 08.08.2025, dismissed IDBI Bank's appeals against guarantors Hemangi and Noopur Patel, upholding the NCLT Indore's order that its Section 95 IBC applications were time-barred. The Tribunal clarified that insolvency proceedings against personal guarantors must be initiated within 3 years under Article 137 of the Limitation Act, and the 12-year limitation applicable to decree execution under Article 136 does not extend to IBC proceedings.

### Issues

1. Whether the limitation period for filing an application under Section 95 IBC against a personal guarantor is 12 years (as applicable to decree execution) or 3 years under Article 137 of the Limitation Act?
2. Whether IDBI's Section 95 applications filed in September 2024, after issuance of a Recovery Certificate in January 2019, were within limitation?

### Facts of the Case

The corporate debtor, Great Logistic and Parking Services Pvt. Ltd., availed credit facilities from IDBI Bank, for which Hemangi Patel and Noopur Patel executed personal guarantees on 28.10.2010. Following default, the account was declared NPA on 31.03.2016, and IDBI invoked the guarantees on 24.10.2016.

An OA was filed in DRT and Recovery Certificate was issued on 25.01.2019, following which IDBI filed Section 95 IBC applications on 02.09.2024. The NCLT dismissed them as time-barred; on appeal, IDBI claimed a 12-year limitation under Article 136, while the respondents argued for the 3-year period under Article 137.

### Court's Findings

The NCLAT, relying on **Dena Bank v. C. Shivakumar Reddy (2021)**, **Kotak Mahindra Bank Ltd. v. A. Balakrishnan (2022)**, and **Gaurav Hargovindbhai Dave v. ARC (2019)**, reiterated that IBC applications are governed by **Article 137** with a 3-year limitation, not 12 years. It held IDBI's reliance on **Tottempudi Salalith v. SBI** misplaced, as that case too endorsed the 3-year rule. Since the recovery certificate dated 25.01.2019 extended limitation only till 25.01.2022 (with COVID extension till 11.01.2024), IDBI's applications filed on 02.09.2024 were time-barred. The Tribunal further stressed that under Section 95, invocation of the personal guarantee is mandatory, and since IDBI had invoked it in 2016, the limitation clock began then and could not be stretched to 12 years.

### Judgment

The NCLAT dismissed both appeals filed by IDBI Bank. It upheld the NCLT's decision that the Section 95 applications were filed beyond the limitation period of 3 years and were therefore not maintainable. The judgment **Tottempudi Salalith (Supra)** also did not lay down any proposition contending that the limitation period was of 12 years. It was concluded that IDBI had filed the Section 95 application after the expiry of limitation period.

### Our Viewpoint

The judgment reaffirms that IBC applications under **Sections 7 and 95 are governed by the 3-year limitation under Article 137, not the 12-year period for decree execution.**

Further, Section 95(4)(b) specifically requires proof that the debtor failed to pay the debt within 14 days of the service of the notice of demand. This underscores that, for invocation of a personal guarantee, a demand notice must be duly served on the personal guarantor, making strict compliance with the requirement indispensable. Strict compliance is essential, and lenders must act promptly, as delay beyond 3 years even with a recovery certificate—renders proceedings time-barred.

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Guest

PERSPECTIVE



## ESG Driven Lending: Navigating Risks, Responsibility & Returns

Climate change is an escalating global issue, prompting governments and regulatory bodies worldwide to push for robust Environmental, Social, and Governance (“ESG”) transformations in the business sector. Beyond industries, banks face immense pressure as key financial stewards of global economies to drive sustainable change. There are two key areas where banks can readily advance their ESG impact. First, by introducing ESG standards, policies, and objectives into their operational frameworks. Second, encouraging and incentivizing borrowers to integrate ESG as a matter of principle.

The Indian Banks’ Association (“**IBA**”) has pledged to develop an ESG framework, integrating climate risk into credit and risk assessment strategies. However, industry studies highlight that the adoption of effective ESG due diligence is still evolving. The Reserve Bank of India (“**RBI**”) in its report, ‘Climate Risk and Sustainable Finance’ aligned with the International Sustainability Standards Board (“**ISSB**”) S2 guidelines, emphasizes the need for banks to assess and develop methodologies for identifying and measuring climate-related risks within their portfolios. The report suggests a framework that will mandate banks to report their exposure to climate-related financial risks, conduct stress tests for extreme weather events, and outline strategies to shift toward a low-carbon economy. This approach encompasses both voluntary disclosures beginning in fiscal year 2027, transitioning to mandatory requirements by fiscal year 2028, wherein a phased implementation reflects RBI’s recognition of the sector’s preparatory requirements and capacity-building needs. To address data limitations constraining comprehensive climate risk assessment, RBI has announced the establishment of Reserve Bank Climate Risk Information System (“**RB-CRIS**”), a dedicated repository designed to provide standardized datasets including hazard data, vulnerability assessments, exposure metrics for physical risk evaluation, sectoral transition pathways, and carbon emission intensity databases. A significant compliance challenge emerges from the requirement for Scope 3 emissions disclosures as this requirement necessitates comprehensive supply / value chain emissions assessment and financed emissions, an area where financial institutions have demonstrated limited tracking capabilities.

The Securities and Exchange Board of India (“**SEBI**”) (Credit Rating Agencies) (Second Amendment) Regulations, 2025 introduce a subscriber-pays business model, mandating simultaneous sharing of ESG reports with issuers and subscribers, while providing issuers a two-day feedback window. SEBI has also established a comprehensive Framework for ESG Debt Securities, setting regulatory requirements for issuers of social, sustainability, and sustainability-linked bonds. The framework mandates alignment with recognized standards such as ICMA Principles or Climate Bonds Standard, while requiring independent third-party reviewer appointments for verification and impact reporting.

Non-compliance with mandatory disclosure requirements and stress testing protocols may result in supervisory action by the RBI, including potential restrictions on business operations and financial penalties. Banks’ failure to adequately assess and disclose climate-related risks may expose directors and senior management to fiduciary liability claims, particularly where such failures result in material losses to stakeholders. Inadequate ESG performance can trigger divestment by sustainability-focused institutional investors, adversely affecting market capitalization and funding costs. Climate-related risks inadequately assessed during credit underwriting may materialize as stranded assets or non-performing loans, directly impacting balance sheet quality and regulatory capital ratios.

### **Strategic Legal Recommendations**

Banks must establish dedicated ESG governance structures, including board-level oversight committees and senior management accountability frameworks, to ensure effective implementation of regulatory requirements and strategic integration of sustainability considerations. Legal counsel should advise on developing comprehensive climate risk management policies incorporating both physical and transition risk assessments, aligned with international best practices and regulatory expectations. Establishment of robust documentation standards for ESG-related decisions, risk assessments, and disclosure processes will be essential for demonstrating regulatory compliance and defending against potential legal challenges.

### **Conclusion**

ESG is no longer a matter of voluntary alignment or corporate goodwill; it is fast becoming a legal and operational imperative. Treating ESG risks as a procedural formality or a tick box exercise exposes banks to a range of vulnerabilities, from hidden climate related exposures in loan portfolios to reputational damage in the eyes of sustainability conscious investors. The absence of consistent ESG due diligence across departments risks fragmented oversight and missed exposures, while environmental liabilities could translate into stranded assets akin to traditional NPAs. To navigate this shift, banks must establish robust governance structures, integrate ESG into risk management systems, and adopt transparent disclosure practices. Those that respond proactively will not only meet compliance requirements but also strengthen their market standing in a financial ecosystem where sustainability is increasingly central to investor confidence and regulatory favour.



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