

Uniquus POV

Building Credibility in Green Finance

Interpreting RBI's Master Directions on Climate Finance and Management of Climate Change Risks



EXECUTIVE SUMMARY

Climate change is now recognized as a material financial risk with direct implications on balance sheets, capital allocation, and systemic stability, rather than a peripheral sustainability or reputational concern. Climate-related shocks can disrupt lending, insurance, and financial markets, elevating climate risk to a core concern for financial institutions worldwide.

In response, the Reserve Bank of India (RBI) is aligning its regulatory approach with global frameworks, including the Basel Committee and the Task Force on Climate-related Financial Disclosures (TCFD). This shift strengthens governance and disclosure expectations, improves risk assessment, increases capital allocation to genuinely sustainable activities, and mitigates greenwashing. This emphasis has moved decisively from environmental intent to financial risk discipline.

RBI's climate risk journey has evolved steadily over the past few years. After joining the Network for Greening the Financial System (NGFS) in 2021 and establishing a Sustainable Finance Group in 2022, RBI issued a framework for green deposits in 2023 and released draft climate-related financial disclosure in 2024, alongside the RBI's explicit recognition of climate change as a financial risk. In 2025, the launch of the RBI–Climate Risk Information System and the issuance of final directions on Climate Finance and Climate Risk Management marked a critical step in embedding climate risk into India's financial regulatory architecture.

These Directions underscore RBI's intent to promote credible, transparent, and scalable climate finance, while protecting depositors and maintaining trust in the financial system. Climate considerations are now expected to be embedded across governance, risk management, product design, and disclosures.

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RBI'S MASTER DIRECTIONS

Climate Finance and Management of Climate Change Risks

Overview

The Directions **operationalize climate risk management** across the financial sector, combining mandatory governance, disclosure, and operational requirements. They also established safeguards to prevent greenwashing and to channel credible finance to climate-aligned activities.

The three parallel Directions titled "*Climate Finance and Management of Climate Change Risks*" targeted towards:

Commercial Banks

Non Banking Financial Companies (NBFCs)

- Deposit-taking NBFCs (NBFC-D) registered under the RBI Act, 1934
- Deposit-taking Housing Finance Companies registered under the National Housing Bank (NHB) Act, 1987.

Small Finance Banks



Board Accountability as the Anchor of Climate Governance

Boards are expected to move beyond symbolic oversight and assume responsibility for the effective implementation of climate-related policies. This includes regular review, gap identification, corrective actions, and robust governance controls.



From Green Intent to Governed Capital Allocation

Green financing must **be planned, tracked, and governed from inception, with emphasis on robust processes and traceability rather than ad-hoc or retrospective green labeling**. To safeguard the integrity of green finance and mitigate greenwashing risks, the directions prescribe clear definitions, use-of-proceeds criteria, and exclusion, shifting focus from sustainability claims to demonstrable end-use integrity and outcomes.



Mandating Transparency through Public Disclosure and Assurance

Structured public disclosures and independent assurance are mandated. The disclosures are **intended to be accessible to investors, depositors, and other stakeholders, and not confined to regulatory reporting alone**. By subjecting climate-related policies, allocation of proceeds, and impact outcomes to external visibility and assurance, the framework seeks to reinforce market discipline and accountability, complementing supervisory oversight with informed stakeholder scrutiny.



Recasting Climate Change as a Core Financial Risk

Climate change is explicitly recognized as a Prudential Financial risk, necessitating its integration into core risk management, governance, and supervisory processes. **Climate finance and green deposits are no longer voluntary ESG initiatives but Board-accountable regulatory obligations** aligned with NGFS and Basel expectations.



Indian Green Taxonomy as the Allocation Anchor

Green finance allocation must align with the Indian Green Taxonomy, once finalized. This taxonomy-led approach **provides a consistent reference point, reduces interpretational ambiguity, and strengthens credibility and comparability across the market**.

Foundational Drivers and Key Themes



Integration With Existing Regulations

Climate finance is embedded within the existing prudential framework, with **explicit linkages to Priority Sector Lending (PSL), Asset–Liability Management (ALM), High Quality Liquid Assets (HQLA), the Deposit Insurance and Credit Guarantee Corporation (DICGC), and financial statement disclosures, thereby reinforcing its integration with core banking regulation.**



Principles-Based Regulation with Strong Supervision

While the Directions are principles-based and do not prescribe explicit penalties for non-allocation, **compliance remains subject to supervisory review and regulatory interpretation by RBI.**



Key Operational Provisions

- Regulated entities may finance eligible green activities or projects regardless of whether green deposits are raised; however, green deposits shall not be raised retrospectively for activities or projects already undertaken.
- The issuance of green deposits is not mandatory; however, where an entity chooses to raise them, it shall comply with the framework prescribed under the Directions.
- Green deposits may be issued as cumulative or non-cumulative deposits and, upon maturity, shall be renewed or withdrawn at the depositor's option.
- Green deposits shall be denominated only in Indian Rupees and shall not be issued in any foreign currency.
- Interest on green deposits shall be paid in accordance with the agreed terms and applicable directions, irrespective of the allocation or utilization of the proceeds.
- Premature withdrawal of green deposits shall be permitted without restriction and governed by the applicable deposit directions, without affecting the financed green activities or projects.
- Pending allocation, proceeds of green deposits may be temporarily parked in liquid instruments with a maximum maturity of one year.
- Any third-party verification or assurance shall not absolve the regulated entity of responsibility for the end-use of funds, which remains subject to internal checks, controls, and procedures applicable to other forms of lending.
- The Directions include repeal and savings provisions to ensure continuity and regulatory consistency.

What are the requirements?

Board approval and policy architecture

- Establish a Board-approved policy on green deposits.
- The policy should clearly define:

• Governance structure	• Roles and responsibilities	• Internal controls	• Review processes
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- The policy shall be published on the entity's website.
- Boards are expected to periodically review progress, supported by structured reporting from senior management.

Financing frameworks and use of proceeds

- Where an institution chooses to raise green deposits, it must establish a Board-approved Financing Framework.
- The framework shall cover:

• Eligible green activities and explicit exclusions	• Project evaluation and selection criteria	• Processes for allocation and monitoring of proceeds
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- Particulars of the temporary parking of unallocated funds
- Proceeds must be raised and deployed in line with the framework from the outset.
- Prior to implementation, a copy of the Financing Framework (FF), along with the opinion of the external reviewer, shall be published on the website.

Disclosure and reporting

- Publicly disclose key information on green finance, including amounts raised and allocated, categories of green activities financed.
- Third-party verification/assurance and impact assessment reports shall be published on the website.
- An annual review report covering these details must be placed before the Board within three months of the financial year-end, supported by internal controls.
- For disclosures in financial statements, institutions shall follow the Reserve Bank of India – Financial Statements: Presentation and Disclosures Directions, 2025.

Assessment and verification

- Independent third-party verification of green finance proceeds is mandatory.
- The verification should cover:

• End-use of funds	• Adherence to eligible activities	• Adequacy of policies and internal controls, including project evaluation
• Management of proceeds	• Reporting and disclosures	• Validation of all the related / required information provided by the borrower
- Annual impact assessments required, with measurable indicators (See Annexure 2) and transparent disclosure of data gaps and improvement plans.

Uniquus' PERSPECTIVE

The Master Directions titled *Climate Finance and Management of Climate Change Risks* clearly establish that **climate governance is now central to financial supervision**. Climate risks and financing are expected to be managed like any other financial risk, with defined ownership, structured processes, and continuous oversight.

Strategic Upside

- The impact for banks and NBFCs is largely structural.
- The Directions provide much-needed clarity on what is expected, how climate-linked products should be governed, and how green claims should be supported.
- By setting clear rules on financing frameworks, disclosures, and assurance, the framework reduces greenwashing risk and improves discipline in how capital is deployed.
- Significant business opportunities for banks and NBFCs, enabling them to mobilize capital for green sectors, support client sustainability initiatives, and invest in Sovereign Green Bonds.

Execution challenges

- The challenges, however, are largely operational.
- Many institutions still face gaps in data availability, especially at the borrower and project level.
- Internal expertise on climate risk remains uneven, and responsibility for climate-related matters is often spread across multiple teams without clear ownership.
- Taxonomies and measurement methods continue to evolve, making implementation more complex.

01

Over time, institutions that put robust climate finance structures in place are likely to benefit from stronger investor confidence, improved access to funding, and more accurate pricing of climate-related risks.

02

Effective implementation entails compliance costs, including policy redesign, process re-engineering, external assurance, and technology and data upgrades.

03

Institutions will need to balance these opportunities with the operational and resource requirements to ensure adherence to the Directions.

04

Integrating climate considerations into credit assessment, stress testing, and capital planning will therefore require sustained effort, investment in systems, and closer coordination across risk, finance, and business teams.

RBI has intentionally **avoided prescribing a single model for all institutions**. The framework allows for proportional implementation, recognizing differences in size, complexity, and maturity. At the same time, supervisory expectations are clear. Institutions are expected to move forward, address gaps in a structured manner, and demonstrate steady progress, even if full maturity will take time.

Gearing up for compliance: How should banks and NBFCs respond?

Establish ownership and governance

- Assign climate-related responsibilities at Board and senior management level (e.g., Risk Committee, ESG/Sustainability Committee).
- Define clear reporting lines between Risk, Treasury, Business, Sustainability, and Finance teams.
- Approve or update a Board-level climate finance and risk charter that reflects the Master Directions.

Build and operationalize frameworks

- Design / Update their climate finance policies and financing frameworks to align with regulatory expectations.
- Invest in building internal data and impact measurement capabilities, including systems, processes, and skills needed to track outcomes over time.

Diagnose Gaps vs RBI Master Directions

- Conduct a structured gap assessment against the Directions covering governance arrangements, financing frameworks, data availability, disclosure practices, and assurance readiness.
- Formulate a realistic implementation plan to address the gaps based on by regulatory criticality and implementation complexity.

Disclose and validate

- Engage credible independent assurance providers.
- Implement public disclosure on the institution's website and align with RBI's financial statement presentation and disclosure requirements.

Conclusion

The Directions require **banks and NBFCs to embed climate risk and green finance within core governance and risk management processes**. Strengthening accountability, and integrating climate considerations into credit appraisal and monitoring, and preparing for alignment with the Indian Green Taxonomy.

While the **framework offers opportunities to diversify funding and enhance market credibility**, it also exposes gaps in data, systems, and borrower-level capabilities. Early, structured action will be essential. Together with RBI's proposed disclosure framework and the RBI–Climate Risk Information System, the Directions underscore the need for sustained investment in governance, data, and transparency to support long-term financial resilience.

Annexure

Eligible green activities/projects

(as provided under Clause 13 of the RBI Climate Finance and Management of Climate Change Risks Directions, 2025 applicable to NBFCs and Clause 14 of the Directions applicable to Commercial Banks and Small Finance Banks)

Until the Indian Green Taxonomy is finalized, proceeds from green deposits shall be allocated to eligible green activities and projects that promote energy efficiency, reduce greenhouse gas emissions, enhance climate resilience, and preserve or improve natural ecosystems and biodiversity.

Renewable Energy

- Solar / wind / biomass / hydropower energy projects that integrate energy generation and storage.
- Incentivizing adoption of renewable energy.

Energy Efficiency

- Design and construction of energy-efficient and energy-saving systems and installations in buildings and properties.
- Supporting lighting improvements (e.g., replacement with LEDs).
- Supporting construction of new low-carbon buildings as well as energy-efficiency retrofits to existing buildings.
- Projects to reduce electricity grid losses.

Clean Transportation

- Projects promoting electrification of transportation.
- Adoption of clean fuels like electric vehicles including building charging infrastructure.

Climate Change Adaptation

- Projects aimed at making infrastructure more resilient to impacts of climate change.

Green Buildings

- Projects related to buildings that meet regional, national, or internationally recognized standards or certifications for environmental performance.

Sustainable Water and Waste Management

- Promoting water efficient irrigation systems.
- Installation / upgradation of wastewater infrastructure including transport, treatment, and disposal systems.
- Water resources conservation.
- Flood defense systems.

Pollution Prevention and Control

- Projects targeting the reduction of air emissions and greenhouse gas.
- Control, soil remediation, waste management, waste prevention, waste recycling, waste reduction, and energy / emission-efficient waste-to-energy.

Sustainable Management of Living Natural Resources and Land Use

- Environmentally sustainable management of agriculture, animal husbandry, fishery, and aquaculture.
- Sustainable forestry management including, afforestation/reforestation.
- Support for certified organic farming.
- Research on living resources and biodiversity protection.

Terrestrial and Aquatic Biodiversity Conservation

- Projects relating to coastal and marine environments.
- Projects related to biodiversity preservation, including conservation of endangered species, habitats, and ecosystems.

Terrestrial and Aquatic Biodiversity Conservation

- Fossil fuel-based extraction, production, or distribution activities.
- Nuclear power generation.
- Direct waste incineration or landfill projects.
- Alcohol, weapons, tobacco, gaming, or palm oil industries.
- Biomass-based energy projects using feedstock from protected areas.
- Hydropower plants larger than 25 MW.

Impact Indicators

(as provided under Clause 16 of the RBI Climate Finance and Management of Climate Change Risks Directions, 2025 applicable to NBFCs and Clause 17 of the Directions applicable to Commercial Banks and Small Finance Banks)

Banks are required to annually assess and disclose the impact of green finance deployment through an Impact Assessment Report.

Eligible Project Category	Impact Indicators- Example
Renewable Energy	Total renewable capacity (in MWh)
	Energy generated per year (MWh)
	GHG emissions avoided per year (measured in tonnes CO ₂ equivalent, tCO ₂ e)
Waste Management	Waste diverted from landfill per year (tonnes)
Clean Transportation	GHG emissions avoided per year (tCO ₂ e)
	New clean transportation infrastructure built (km)
	Number of electric or low emission vehicles produced
Energy Efficiency	Energy savings per year (MWh)
	GHG emissions avoided per year (tCO ₂ e)
Afforestation / Reforestation	GHG emissions reduced / Carbon Sequestration achieved (measured in tCO ₂ e)

Glossary

Keywords	Definition
Prudential Financial risk	The risk of financial loss or adverse impact on capital, earnings, or liquidity arising from credit, market, operational, or other exposures, managed through prudential regulation to ensure institutional safety and stability.
NGFS- and Basel-aligned global supervision.	A supervisory approach aligned with guidance issued by the Network for Greening the Financial System and the Basel Committee on Banking Supervision (BCBS) to integrate climate-related risks into prudential regulation and oversight.
Basel Committee on Banking Supervision (BCBS)	Basel Committee on Banking Supervision is a global forum of banking supervisors, established by the central bank Governors of the Group of Ten (G10) countries, that develops internationally accepted standards, guidelines and best practices for banking regulation and supervision with the objective of strengthening the regulation, supervision and practices of banks worldwide and enhancing global financial stability.
Task Force on Climate-related Financial Disclosures (TCFD)	An international framework established by the Financial Stability Board to enable consistent, decision-useful disclosure of climate-related risks and opportunities.
Priority Sector Lending (PSL)	An RBI mandate requiring banks to allocate a portion of lending to priority sectors critical for economic development.
Asset–Liability Management (ALM)	A framework for managing risks arising from mismatches between assets and liabilities, including liquidity and interest rate risks.
High Quality Liquid Assets (HQLA)	High liquidity assets that can be easily converted into cash to meet short-term liquidity needs, as defined under the Basel III Liquidity Coverage Ratio (LCR) framework adopted by the Reserve Bank of India.
Deposit Insurance and Credit Guarantee Corporation (DICGC)	An RBI-owned entity established under the Deposit Insurance and Credit Guarantee Corporation Act, 1961, providing deposit insurance coverage to protect bank depositors and support financial system stability.

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- iii Reserve Bank of India (RBI), Circular No. RBI/2023-24/14 DOR.SFG.REC.10/30.01.021/2023-24, "Framework for acceptance of Green Deposits," dated April 11, 2023 - [Notifications - Reserve Bank of India](#)
- iv Reserve Bank of India (RBI), Circular No. RBI/2023-24/DOR.SFG.REC. /30.01.021/2023-24, "Draft Disclosure framework on Climate-related Financial Risks, 2024," dated February 28, 2024 - [Database - Historical Data- Reserve Bank of India](#)
- v Reserve Bank of India (RBI), Speeches and Media Interactions, "Climate Change – The Emerging Challenge," dated July 25, 2024 - [Speeches - Reserve Bank of India](#)
- vi Reserve Bank of India (RBI), RBI Bulletin, "Building a Robust Ecosystem for Green and Sustainable Finance in India - Shri M. Rajeshwar Rao," dated May 21, 2025 - [RBI Bulletin - Reserve Bank of India](#)
- vii Reserve Bank of India (RBI), Master Directions - [Reserve Bank of India - Master Directions](#)

About Uniquis Consultech:

Uniquis Consultech is a global tech-enabled consulting company that specializes in Accounting & Reporting, Governance, Risk & Compliance, Sustainability & Climate Consulting, and Tech Consulting. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST. Anu Chaudhary, a global sustainability and climate specialist with over 25 years of experience, serves as the Global Head of Sustainability & Climate Consulting. Abhijit Varma, a veteran technology specialist, leads Tech Consulting globally.

Uniquis has a global team of 650+ professionals led by 70+ Partners & Directors across eleven offices in the USA, the Middle East, and India. The company serves more than 400 clients, including marquee names in each of the markets it operates in.

Uniquis is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

About Our Sustainability & Climate Consulting Services:

Our Sustainability & Climate Consulting practice provides end-to-end services in the areas of climate risk and adaptation, decarbonization, corporate sustainability and ESG.

Given the growing importance of disclosures, significant data integrity requirements, and varied and disaggregated data sources, enabling the sustainability journey through technology is essential. With a unique blend of strong sustainability and climate domain capabilities and technology, we are well-placed to assist organizations in achieving their long-term sustainability goals.

We endeavor to guide sustainable transformation in business and society at large, with the vision to shape a more balanced planet for the coming generations

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