Framework for Acceptance of Green Deposits of Regulated Entities

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About Framework for acceptance of Green Deposits of Regulated Entities (RE):

- **Purpose**: It is intended to **encourage regulated entities** (usually banks and non-banking financial institutions) **to offer green deposits to customers**, protect the interest of the depositors, aid customers in achieving their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities/projects.
- It will apply to all **scheduled commercial banks, including small finance banks and deposit-taking non-banking finance companies** such as housing finance firms.

- The framework shall **come into effect from June 1, 2023**.
- **Key features of the framework:**
  - The entities will **issue green deposits as cumulative or non-cumulative deposits**.
  - **On maturity**, they can be **renewed or withdrawn**.
  - The green deposits shall be **denominated in Indian rupees only**.
  - All **conditions applicable to other public deposits will also be applicable** to green deposits.
  - The **allocation of funds raised from green deposits will be based on the official Indian green taxonomy**, which is yet to be finalised.
  - However, as an interim measure, **REs shall be required to allocate the proceeds raised through green deposits in the categories** such as Renewable energy, Energy efficiency, Clean Transportation, Sustainable water and waste management etc.
  - **Nuclear power generation, direct waste incineration**, landfill projects and hydropower plants larger than 25 MW are among the uses that **are prohibited** using funds raised via green deposits.
  - The **allocation of funds raised** through green deposits by REs during a financial year shall be **subject to an independent Third-Party Verification/Assurance**, which shall be done on an annual basis.
  - **The REs, with the assistance of external firms**, will also **annually assess the impact** associated with the funds.

What is a Green Deposit?

- It is an **interest-bearing deposit received by regulated entities for a fixed period**.
- The proceeds are **earmarked for being allocated towards green finance.**

Q1) What is a cumulative deposit?

A lump sum amount, accepted for a fixed period, at an agreed rate of interest where interest is paid along with principal amount on maturity of deposit, is called cumulative deposit. The interest accrued is added back to the principal amount on quarterly intervals.

Source: RBI issues framework for acceptance of green deposits by by banks, NBFCs

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