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BYTES

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1. Tokenized Deposits and the Digital Rupee: Comparing Emerging Digital Money Architectures

Introduction

In May 2026, developments surrounding the proposed GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act) highlighted the growing policy focus on digital forms of money in the United States. At the same time, leading global financial institutions have continued exploring tokenized deposit networks and distributed ledger-based payment infrastructure through initiatives such as Canton Network, JPM Coin, and Project Guardian.

These developments reflect a broader global shift towards digital financial infrastructure. While several jurisdictions and financial institutions are exploring tokenized commercial bank deposits and stablecoin-based ecosystems, India has adopted a distinct approach through the Reserve Bank of India's ("RBI") Central Bank Digital Currency ("CBDC"), commonly referred to as the Digital Rupee.

Understanding Tokenized Deposits

Tokenized deposits are digital representations of commercial bank deposits recorded on distributed ledger technology ("DLT") infrastructure. Similar to the dematerialization of securities, tokenization changes the technological form through which deposits are recorded, transferred, and settled without altering the underlying legal nature of the deposit itself.

Under this model, the depositor continues to maintain a deposit relationship with a regulated commercial bank. The liability remains that of the commercial bank, while distributed ledger technology is used to facilitate recording, transfer, and settlement of the deposit.

Importantly, tokenized deposits should be distinguished from stablecoins. While both may use distributed ledger technology, tokenized deposits represent claims on regulated bank deposits, whereas stablecoins are typically issued under separate arrangements and may be backed by reserves or other assets depending on the applicable regulatory framework.

Key Features of Tokenized Deposit Networks

Dematerialized Representation of Deposits:
Tokenization replaces traditional account-based ledger entries with digital representations recorded on distributed ledger infrastructure. The underlying deposit remains unchanged, but the method of recording and transfer becomes technologically enhanced.

Programmability and Settlement Efficiency:
Distributed ledger infrastructure may enable programmable payment features, automation of contractual obligations, and faster settlement processes. Such capabilities are being explored through various pilot projects and industry initiatives globally.

How Tokenized Deposits Operate:
Under a tokenized deposit model, a customer maintains a deposit account with a participating bank. The bank may issue digital tokens representing the corresponding deposit balances on a distributed ledger platform. The bank's internal records remain aligned with the distributed ledger, enabling transfers between participants on the network while maintaining the underlying banking relationship. The objective is to improve settlement efficiency and facilitate digital transaction processing within a regulated framework.

India's Digital Rupee Approach: India's Digital Rupee follows a different model. The Digital Rupee is a Central Bank Digital Currency issued by the RBI and represents a direct liability of the central bank. It is therefore distinct from both commercial bank deposits and privately issued digital assets. Through its retail and wholesale CBDC pilots, the RBI has explored the use of sovereign digital currency for payments and settlement purposes. The Digital Rupee forms part of India's broader public digital infrastructure strategy and is intended to operate within a regulated framework under the oversight of the central bank.

Comparing the Two Models

Sovereign Liability vs Commercial Bank Liability:

A key distinction between the two models lies in the nature of the underlying liability. The Digital Rupee represents a direct liability of the RBI, whereas tokenized deposits remain liabilities of the issuing commercial bank. As a result, the risk profile associated with each instrument differs from a legal and regulatory perspective.

Interoperability Considerations:

Tokenized deposit systems are often developed within specific institutional or consortium-based networks. As adoption expands, interoperability across different networks may become an important consideration.

By contrast, CBDC initiatives are generally designed with broader system-level integration objectives in mind. The extent to which either model achieves interoperability in practice will depend on regulatory design, technical standards, and market adoption.

Public and Private Digital Money Infrastructure

Tokenized deposits represent an evolution of existing commercial banking infrastructure through the use of distributed ledger technology. The Digital Rupee, on the other hand, represents a sovereign digital currency framework developed and issued by the central bank. Both approaches seek to improve efficiency, settlement capabilities, and digital financial infrastructure, albeit through different institutional models.

Conclusion

The growing global interest in tokenized deposits, stablecoins, and central bank digital currencies reflects the ongoing transformation of financial market infrastructure.

While several international financial institutions are exploring tokenized commercial bank deposits and distributed ledger-based payment systems, India has pursued a sovereign digital currency model through the Digital Rupee. Rather than competing approaches, these models may ultimately serve different functions within the evolving digital financial ecosystem.

As policymakers and market participants continue to evaluate the future of digital money, questions relating to interoperability, regulatory oversight, settlement efficiency, and financial stability are likely to remain at the centre of the discussion.

2. India's Digital Rupee Expansion: RBI's CBDC Push for Welfare Distribution and Cross-Border Payments

Introduction

India's journey in digital payments began with UPI, which has normalized the culture of digital transactions across the country. India is now entering the next phase of digital payments with the Central Bank Digital Currency (CBDC), or the Digital Rupee, issued by the Reserve Bank of India (RBI). The RBI launched a pilot project in 2022, and by early 2025, the Digital Rupee had recorded daily transactions worth roughly ₹5 crore, with over 5 million users and 4 lakh merchants enrolled.

CBDC Integration with Welfare Delivery Systems

The RBI is now exploring the integration of the Digital Rupee with India's Direct Benefit Transfer (DBT) system, which currently serves more than 90 crore beneficiaries. States such as Gujarat have already launched India's first CBDC-based Public Distribution System (PDS), utilizing an automated Grain ATM (Annapurti) capable of dispensing approximately 25 kilograms of grain in 35 seconds. The RBI is also in discussions with the Ministry of Finance and the Unique Identification Authority of India (UIDAI) regarding potential linkages between the Digital Rupee and Aadhaar-based payment systems.

For individuals without access to formal banking services, CBDC wallets may provide an additional channel for receiving welfare benefits. Such a system has the potential to reduce delays associated with traditional payment processing mechanisms. Further, programmability features, where implemented, could enable funds to be utilized only for specified purposes, thereby reducing the risk of misuse.

Advancing Financial Inclusion Through Offline Payments

The RBI is also testing offline payment functionality, enabling transactions to take place even without internet connectivity. This functionality could particularly benefit rural and remote areas where internet access remains inconsistent. Together, these features have the potential to advance financial inclusion for India's unbanked and underbanked population, many of whom continue to rely heavily on cash.

Expanding the Digital Rupee for Cross-Border Payments

India is one of the world's largest recipients of remittances, receiving over USD 100 billion annually, with the United States, United Arab Emirates, United Kingdom, and Saudi Arabia serving as key remittance corridors. However, the existing remittance ecosystem can be slow and costly owing to the involvement of multiple correspondent banks, compliance requirements, and currency conversions.

The RBI has been exploring cross-border CBDC interoperability through discussions and pilot initiatives with foreign central banks and international institutions. The expansion of the Digital Rupee could make such transactions faster and more efficient, while potentially reducing settlement times. Further cross-

border pilot initiatives are anticipated in the coming years, which could particularly benefit regions that receive significant remittance inflows.

Key Challenges and Risks

Despite this progress, CBDCs also present certain risks. Every CBDC transaction is traceable, creating a detailed record of economic activity within a state-regulated infrastructure and raising legitimate privacy concerns. Additionally, any cybersecurity incident affecting interconnected digital payment and welfare delivery infrastructure could have significant consequences for beneficiaries and public trust.

Conclusion

India's Digital Rupee has evolved from a pilot project into a practical digital payment tool, with a growing focus on welfare distribution and cross-border payment applications. However, the long-term success of this expansion will depend on effective implementation, adequate public awareness, and robust safeguards. The Digital Rupee could mark a step forward in India's digital economy, although its ultimate success will depend on how effectively privacy, cybersecurity, interoperability, and adoption challenges are addressed.

3. Comprehensive RBI Regulations on Bank Financing to REITs and InvITs

Executive Summary

On 10 June 2026, the Reserve Bank of India ("RBI") issued the Reserve Bank of India (Commercial Banks - Credit Facilities) Third Amendment Directions, 2026 ("Amendment Directions"), introducing a dedicated framework for commercial bank financing to Real Estate Investment Trusts ("REITs") and making significant changes to the framework applicable to Infrastructure Investment Trusts ("InvITs").

The Amendment Directions introduce prudential safeguards relating to borrower eligibility, acquisition financing, leverage, end-use monitoring, exposure management, governance, and lender protection. The framework provides greater regulatory certainty regarding bank participation in trust-based investment structures and is expected to influence how commercial banks evaluate and structure financing transactions involving REITs and InvITs.

Background

REITs and InvITs have become important components of India's financial markets. REITs provide investors with exposure to income-generating real estate assets, while InvITs offer investment opportunities in operational infrastructure assets across sectors such as transportation, energy, telecommunications, and logistics.

Over the past decade, these structures have emerged as important vehicles for capital formation, asset monetisation, and long-term investment. As their scale and significance have increased, so has the demand for institutional financing and a more formal regulatory framework governing commercial bank participation in such financing arrangements.

The Amendment Directions seek to establish a dedicated regime for REIT financing while

strengthening the existing framework applicable to InvITs through prudential requirements relating to eligibility, governance, leverage, acquisition financing, and lender protection.

Key Regulatory Developments

Dedicated Framework for REIT Financing:

One of the key features of the Amendment Directions is the introduction of a dedicated regulatory framework governing commercial bank financing to REITs registered with and regulated by the Securities and Exchange Board of India ("SEBI").

The framework prescribes eligibility conditions intended to ensure that financing is directed towards robust and operational asset portfolios. These conditions focus on the operational profile and asset characteristics of borrowing REITs, including the presence of income-generating assets and demonstrated operational performance.

The establishment of a stand-alone REIT financing framework provides greater regulatory clarity regarding institutional credit availability for real estate investment structures and establishes clear prudential parameters for such financing activities.

Strengthening the InvIT Lending Framework:

The Amendment Directions also revise the framework governing financing to InvITs. The revised regime places greater emphasis on operational and revenue-generating infrastructure assets with demonstrated cash-flow visibility. In doing so, the framework aligns certain aspects of InvIT financing with the approach adopted for REITs, thereby promoting greater consistency in the treatment of trust-based investment vehicles.

Governance and Risk Management Requirements

Commercial banks are required to maintain Board-approved policies governing financing to REITs and InvITs. Such policies are expected to establish standards relating to credit appraisal, exposure limits, debt service coverage requirements, monitoring mechanisms, and risk management practices.

These requirements underscore the importance of robust internal governance frameworks and institution-specific risk assessment processes when evaluating financing proposals involving trust-based structures.

End-Use Monitoring and Restrictions Relating to Stressed Assets

The Amendment Directions strengthen monitoring requirements for lending institutions. Commercial banks are required to ensure that financing extended to REITs and InvITs is utilized only for permitted purposes. In addition, the framework restricts financing arrangements that could effectively be used to support stressed underlying exposures in a manner inconsistent with the RBI's prudential and stressed asset resolution frameworks.

These measures are intended to promote credit discipline and mitigate the risk of indirect support being extended to stressed assets through trust structures.

Acquisition Financing

The Amendment Directions expressly address acquisition financing undertaken by REITs and InvITs. The framework permits such financing subject to specified prudential safeguards and regulatory conditions. This provides greater clarity regarding transactions involving

strategic acquisitions, asset transfers, and portfolio consolidation undertaken through REIT and InvIT structures.

Leverage and Exposure Controls

The framework introduces prudential safeguards designed to contain concentration and leverage risks. Borrowing REITs and InvITs are required to maintain leverage within the limits prescribed under applicable SEBI regulations, or within lower thresholds specified by lending institutions. Further, aggregate banking system exposure to a borrowing trust and its related entities must remain within the applicable exposure limits.

These safeguards are intended to ensure that financing activity remains consistent with prudent risk management standards.

Enhanced Security and Lender Protection

The framework also strengthens lender protection measures. Financing arrangements may be supported by security structures such as legally enforceable charges over assets, assignment of receivables and cash flows, pledges of ownership interests, and other security interests considered appropriate by lenders. The framework also recognizes contractual protections designed to safeguard lender rights and improve enforceability in the event of borrower default.

Significance of the Amendments

The significance of the Amendment Directions lies not only in facilitating bank financing to REITs and refining the framework applicable to InvITs, but also in establishing a structured prudential regime for such financing.

While regulatory guidance previously existed in relation to certain trust-based financing structures, particularly InvITs, the Amendment Directions provide a more comprehensive and structured framework, especially with respect to REIT financing. By setting out eligibility conditions, governance requirements, leverage controls, acquisition financing safeguards, and exposure management standards, the RBI has provided greater regulatory certainty to both lenders and borrowers.

The framework therefore creates a more transparent basis for commercial bank participation in trust-based financing arrangements while ensuring that such participation remains subject to appropriate prudential oversight.

Implications for the Banking and Financial Sector

The Amendment Directions are expected to have significant implications for both lenders and borrowers. For commercial banks, the framework provides greater clarity regarding permissible financing structures and is likely to require enhancements to underwriting standards, governance processes, and monitoring mechanisms.

For REITs and InvITs, the amendments create a more transparent pathway to institutional credit and may contribute to greater diversification of funding sources beyond traditional capital market instruments.

More broadly, the framework is expected to support continued growth in India's real estate and infrastructure sectors by providing a structured regulatory environment for institutional funding while maintaining appropriate prudential safeguards.

Conclusion

Commercial banks, REITs, InvITs, and other market participants should review their existing financing arrangements, lending policies, and compliance frameworks to ensure alignment with the revised regulatory requirements and prepare for implementation of the new regime.

4. RBI Removes Mandatory Investment Fluctuation Reserve (IFR) Requirement for Commercial Banks

Introduction

The Reserve Bank of India ("RBI") has formally discontinued the mandatory Investment Fluctuation Reserve ("IFR") *[1]* requirement for commercial banks through the Reserve Bank of India (Commercial Banks - Classification, Valuation and Operation of Investment Portfolio) Second Amendment Directions, 2026. *[2]*

The amendment removes a longstanding prudential requirement relating to the maintenance of IFR by commercial banks and also eliminates certain conditions governing the inclusion of quarterly profits in Capital to Risk-weighted Assets Ratio ("CRAR") calculations. The move forms part of the RBI's broader effort to simplify the regulatory framework governing investment portfolios and capital management.

Rationale for the Discontinuation

RBI Governor Sanjay Malhotra explained that market prices, as reflected through mark-to-market valuation, should be fully recognized as they provide a more accurate representation of a bank's financial position. The IFR was originally introduced to mitigate volatility arising from fluctuations in investment portfolio values. However, with the implementation of revised investment valuation norms and the incorporation of Basel III capital requirements for market risk, the RBI considered the reserve requirement to have become less relevant.

RBI officials have also highlighted concerns regarding the lack of uniformity in the treatment of different categories of banks, with varying requirements and levels of compliance often leading to supervisory observations. The removal of the IFR requirement is therefore intended to promote greater consistency and simplify the overall regulatory framework.

Existing Framework and Key Changes

Prior to the amendment, commercial banks were required to maintain an Investment Fluctuation Reserve equivalent to at least 2% of their Available for Sale ("AFS") and Fair Value Through Profit and Loss ("FVTPL") investment portfolios. The reserve functioned as a prudential buffer against losses arising from fluctuations in bond prices and helped absorb valuation-related volatility.

In addition, under the earlier CRAR framework, commercial banks were permitted to include quarterly profits in CRAR calculations only if incremental provisions for Non-Performing Assets ("NPAs") in any of the four quarters did not deviate by more than 25% from the annual average.

Under the revised framework, existing IFR balances maintained by commercial banks may be transferred to the Statutory Reserve, General Reserve, or Profit and Loss balance and may be recognized as part of Tier 1 capital, subject to the applicable regulatory framework. The provisions governing the operation and maintenance of the IFR have also been removed from the regulatory directions.

Continued Applicability to Other Banking Categories

While the IFR requirement has been removed for commercial banks, it continues to apply to certain categories of specialised banking institutions.

For payments banks, the IFR has been retained in a modified form owing to the nature of their operations and investment portfolios. Payments banks are required to continue building the reserve from realised gains on the sale of investments, subject to the availability of net profits, until the reserve reaches at least 2% of their AFS and FVTPL portfolios, assessed annually.

Similarly, small finance banks and regional rural banks remain subject to separate regulatory frameworks and are not covered by the full removal applicable to commercial banks.

Regulatory Significance

The discontinuation of the IFR requirement, together with the removal of the NPA provisioning-linked condition for inclusion of quarterly profits in CRAR calculations, provides commercial banks with greater flexibility in capital management.

The amendments simplify compliance requirements, reduce regulatory complexity, and allow banks greater discretion in managing reserve balances previously earmarked for IFR purposes. The framework also reflects the RBI's increasing reliance on mark-to-market valuation principles and existing prudential capital requirements to address market risk. From a regulatory perspective, the changes contribute to a more streamlined framework for investment portfolio management while se-eking to maintain appropriate prudential safe-guards through the broader capital adequacy regime.

Conclusion and Way Forward

The RBI's decision to discontinue the mandatory IFR requirement marks an important development in the prudential regulation of commercial banks. By removing a reserve requirement that had become less significant in light of evolving valuation norms and capital regulations, the RBI has simplified the regulatory framework governing investment portfolios and capital management.

For commercial banks, the amendments provide greater flexibility in the utilization of reserve balances and reduce compliance burdens associated with maintaining the IFR. Going forward, banks should review their capital planning, reserve management policies, and regulatory reporting processes to ensure alignment with the revised framework and assess the implications of the changes on their capital management strategies.

Reference:
[1] IFR is a dedicated financial buffer created out of profits to absorb potential losses from unexpected declines in the market value of investments. It acts as a shock absorber, protecting both institutions and businesses from having to immediately write down losses against their current-year earnings.
[2] Notifications - Reserve Bank of India, https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=13450 (last visited Jun 5, 2026).

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