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RBI Sets 10 Percent Cap on Bank Investments in AIFs to Mitigate Risk Exposure

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The Reserve Bank of India (RBI) has imposed a cap limiting banks' investment in Alternative Investment Funds (AIFs) to 10 percent of the scheme's corpus. The regulatory step aims to reduce the risk exposure of banks in these high-risk investment vehicles.

Under the revised framework, banks are also barred from investing in AIFs that have directly or indirectly invested in debtor companies of the investing bank. If such situations occur, banks will be required to liquidate their investments within 30 days. Failure to do so will lead to the investment being treated as a non-performing asset (NPA).

The central bank emphasized that this move is part of its ongoing efforts to strengthen risk management in the banking system. AIFs, which typically invest in private equity, hedge funds, and other non-traditional asset classes, have seen growing interest from institutional investors, including banks.

By introducing these restrictions, the RBI aims to safeguard the financial system against potential contagion risks and maintain a healthy credit environment. Bankers and financial analysts believe this measure will encourage greater due diligence and prudent investment decisions by financial institutions.