भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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Reserve Bank of India (Non-Banking Financial Companies - Lending to Related Parties) Directions, 2025 – Draft for Comments

I. Preliminary 2
A. Introduction 2
B. Powers exercised, Short Title and Commencement 2
C. Scope of Application 3
D. Definitions 3
II. General Principles on Lending to Related Parties 6
E. Provisions in the Credit Policy 6
F. Materiality Threshold 6
G. Recusal of Interested Parties 7
H. Monitoring of Loans to Related Parties 7
I. Role of Statutory Auditor 8
J. Declaration of Loans 8
L. Others 8
III. Supervisory Reporting, Disclosures, Penalty and Repeal 9
M. Reporting to Supervisors 9
N. Disclosures 9
O. Penalty 9
P. Repeal 10
Appendix 1 – Reporting to Supervisors 11
Appendix 2 – Repealed Circular 13

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हिंदी आसान हैं, इसका प्रयोग बढ़ाइए

I. Preliminary

A. Introduction

1. Lending to counterparties who are related or connected to the lender either through ownership stake in the lender or through their ability to control and influence the lending decisions may prove to be detrimental to the interests of the and other stakeholders. Globally, there are regulations on such related party lending and transactions which might create a conflict of interest or moral hazard for the lenders.

2. Regulatory guidelines in this regard were issued to Non-Banking Financial Companies (NBFCs) vide circular dated April 19, 2022. As Related Parties can be many entities other than what is covered under extant regulatory restrictions, direct or indirect lending to such related parties remain a regulatory concern. Accordingly, the extant guidelines have been reviewed.

3. These Directions have been set out to lay down the revised regulatory guidelines for all NBFCs, comprehensively addressing the above concerns in a harmonised manner. These Directions also have the objectives of ensuring prudence while allowing operational flexibility to NBFCs when they lend to their related parties.

B. Powers Exercised, Short Title and Commencement

4. The Reserve Bank being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified. These Directions have been issued by the Reserve Bank in exercise of powers conferred to it under Sections 45JA, 45 L and 45 M of the Reserve Bank of India Act, 1934; Sections 30A, 32 and 33 of the National Housing Bank Act, 1987; and Section 6 of the Factoring Regulation Act, 2011.

5. These Directions shall be called the Reserve Bank of India (Non-Banking Financial Companies – Lending to Related Parties) Directions, 2025, and shall come into effect from April 1, 2026.

C. Scope of Application

These Directions shall apply to all NBFCs, including Housing Finance Companies (HFCs) with regard to lending by an NBFC to its 'related party' and any contract or arrangement entered into by an NBFC with a 'related party'

6. **Application to prior loans** – With a view to ensuring non-disruptive implementation of these Directions, NBFCs are permitted to let their existing related party transactions which are not in conformity with these Directions as on the date of issuance of the Directions to run-off till maturity, or one year from the date of issue of these Directions, whichever is earlier. However, banks. However, NBFCs are precluded from renewing such loans/ limits after their expiry or enhancing the limits sanctioned prior to the date of these Directions, unless they are in compliance with these Directions.

D. Definitions

7. In these Directions, unless the context otherwise requires, the following definitions shall apply:
   a) 'Committee on lending to related parties' shall mean a committee established by the Board of the NBFCs specifically to deal with lending to related parties.
   b) 'Contract or arrangement' shall have the same meaning as specified in Section 188(1)(a) to (g) of the Companies Act, 2013.
   c) 'Control' shall have the same meaning as assigned to it under Section 2(27) of the Companies Act, 2013.
   d) 'Director of an NBFC or any other entity' shall mean a director appointed/elected to the Board of the entity.
   e) 'Entity' shall mean a 'person' other than an individual and a Hindu Undivided Family.
   f) 'Group entity' of an NBFC shall have the same meaning as assigned to it under extant regulatory guidelines, or applicable accounting standards.
   g) 'Key Managerial Personnel (KMP)' of a lender shall have the same meaning as defined in Section 2(51) of the Companies Act, 2013.
   h) 'Lending' means extending funded or/ and non-fund-based credit facilities to related parties.

i) 'Person' shall have the same meaning as assigned to it under Clause 23 of Section 3 of Part I of Insolvency and Bankruptcy Code (IBC), 2016.

j) 'Promoter' shall have the same meaning as assigned to it under Section 2(69) of the Companies Act, 2013.

k) 'Related Party' shall mean a related person as defined at para 8 (l), or an entity, in relation to the related person, as defined hereinafter:

   i) an entity, where a related person or a relative of the related person is a partner, manager, KMP, director or a promoter; or

   ii) an entity, where a related person or a relative of the related person is a shareholder with more than ten per cent of paid-up equity share capital[1] or holds paid-up equity share capital of Rupees five crore, whichever is less; or

   iii) an entity, where a related person or a relative of the related person is having control, whether singly or jointly with another person; or

   iv) an entity, where a related person or a relative of the related person controls more than twenty per cent of voting rights on account of ownership or through a voting agreement or through any other arrangement; or

   v) an entity, where a related person or a relative of the related person has the power to nominate a director to its Board; or

   vi) an entity, which is accustomed to act on the advice, direction, or instruction of a related person or a relative of the related person; or

   vii) an entity, where a related person or a relative of the related person is a guarantor or a surety; or

   viii) an entity in the form a private trust, where a related person or a relative of the related person is a trustee or an author or a beneficiary.

   ix) any entity which is related to the related person as a subsidiary or a parent company or a holding company or an associate or a joint venture.

   Provided that Government of India/ State Government-owned or controlled entities shall not be treated as related parties to a government-owned bank just by

[1] As shown in the Balance Sheet of the entity.

virtue of the fact that the Government has the common ownership or control of such entities.

l) 'Related Person' with respect to an NBFC shall mean a person, and the relatives[2] of such a person, where the person:

i) is either a promoter, or a director, or a KMP of the NBFC; or

ii) owns more than five per cent of paid-up equity share capital of the NBFC or can, either singly or jointly, exercise more than five per cent of the voting rights of the NBFC on account of either ownership or voting agreement or through shareholders' agreement or through any other arrangement; or

iii) can, through an agreement with the NBFC, nominate a director to its Board; or

iv) is either singly or jointly, in control of the NBFC; or

v) is a group entity of the NBFC.

m) 'Relative' with regard to a natural person shall have the same meaning as defined in Clause (77) of Section 2 of the Companies Act, 2013 and rules framed therein.

n) 'Senior officer' means any officer in middle/ senior management level designated as "senior officer" as per the NBFC's policy on lending to related parties.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934, the National Housing Bank Act, 1987, rules/ regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

[2] The term 'Relative' is in reference to a natural person.

II. General Principles on Lending to Related Parties

This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties.

E. Provisions in the Credit Policy

8. The Board shall have the overall responsibility of ensuring that suitable mechanisms are put in place for implementation of the policy on lending to related parties by the NBFCs.

9. The credit policy (hereinafter called the policy) of an NBFCs, as required in terms of the extant directions, shall contain specific provisions relating to 'lending to related parties' in accordance with the provisions of these Directions. The policy shall prescribe, *inter alia,* additional safeguards to address the risks emanating from lending to related parties.

10. The policy shall also have specific provisions for lending to senior officers of the NBFCs and their relatives.

11. Further, the policy shall:

    a) as a part of the whistleblowing mechanism, encourage employees to communicate confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical, or questionable loans to related parties; and

    b) eliminate *quid pro quo* arrangements, if any.

12. The policy shall specify aggregate limits for loans towards related parties. Within this aggregate limit, there shall be sub-limits for loans to a single related party and a group of related parties. These limits shall be well within the extant prudential exposure limits prescribed by the Reserve Bank.

F. Materiality Threshold

13. Loans to related parties can be extended by an NBFC in terms of their credit policy. However, such loans, including personal loans to directors or a KMP, shall be subject to a materiality threshold. While NBFCs are free to lay down their own materiality threshold, the same shall be subject to the following ceilings:

Category of NBFCs	Materiality Threshold
Upper Layer and Top Layer	₹10 crore
Middle Layer	₹5 crore
Base Layer	₹1 crore

Provided further that "Loans and advances" will not include -

(i) Loans and advances to a director and a KMP against government securities, life insurance policies or fixed deposit.

(ii) Personal[3] loans and advances to an employee director, which the employee director would have been eligible to borrow as an employee, subject to applicable prudential limits/LTV ratios as the case may be.

14. Materiality thresholds may vary for different categories of loan to related parties and borrowers.

15. All loans above the prescribed materiality threshold shall be sanctioned by Board of the NBFCs. However, NBFCs at their discretion, may delegate the above powers of lending beyond the materiality threshold to a Committee of the Board (hereafter called Committee). As regards loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them.

G. Recusal of Interested Parties

16. Directors, or KMP, whether a member of the Committee or not, with a direct or indirect interest in loans to related parties shall recuse themselves from deliberations and decision-making processes involving sanction, disbursal and management of loans to related parties, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc.

H. Monitoring of Loans to Related Parties

17. NBFCs shall put in place suitable mechanism for recording and periodically updating the list of related parties. Periodic reviews shall be conducted at quarterly or shorter

[3] Personal loans as defined under Banking Statistics (Harmonised Definitions).

intervals by internal auditors to check, *inter alia*, whether guidelines and procedures in relation to such loans are being strictly adhered to or not.

18. Any deviation from the policy relating to lending to related parties shall be reported to the Audit Committee of the Board.

19. Any product, entity or structure formed with the objective of circumventing these Directions through various means, such as reciprocal lending or quid pro quo arrangements, and identified as such by the auditors of the lender or by the supervisory authority and investigating agencies shall always be treated as lending to related party.

I. Role of Statutory Auditor

20. Statutory auditors shall examine representative samples of loans to related parties of the NBFCs with a view to satisfying themselves that the processes and procedures laid down in these Directions have been complied with. All exposures to related parties which are group entities of the NBFCs shall invariably be examined by the statutory auditor.

J. Declaration of Loans

21. Directors, and KMP shall give an annual declaration about all loans availed by them and their associated entities from the respective NBFCs or its group entities.

L. Others

22. In addition to the provisions of these Directions on lending to related parties, listed NBFCs shall continue to comply with the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

III. Supervisory Reporting, Disclosures, Penalty and Repeal

M. Reporting to Supervisors

23. NBFCs shall report to the Reserve Bank of India, through DAKSH portal on a semi-annual basis:

a) Details of loans sanctioned and contracts awarded to, and arrangements made with related parties in the format provided in Appendix 1; and

b) any non-compliance with instructions contained in these Directions.

N. Disclosures

24. NBFCs shall disclose information on loans to related parties and also details of contract and arrangement in their notes to financial statements. At a minimum, the information shall include following information for the last two years:

a) the aggregate value of outstanding loans to related parties;

b) the outstanding loans to related parties as a proportion of total credit exposure;

c) the aggregate value of outstanding loans to related parties which are categorized as Special Mention Accounts (SMAs) and Non-Performing Assets (NPAs);

d) the outstanding loans to related parties which are categorized as SMAs and NPAs as a proportion of total SMAs and NPAs, respectively; and amount of provisions held in respect of loans to related parties;

e) Top 10 exposures to related parties, where exposure shall include loans and advances, non-fund-based facilities, investments and positive Mark-To-Market (MTM) values of derivative and values of contracts and arrangements with the related party.

O. Penalty

25. Any non-compliance with and circumvention of these Directions shall result in imposition of penalty as deemed appropriate by the Reserve Bank. These penalties may include imposition of monetary penalty, requirement of full provisioning, directions to conduct staff accountability exercises, forensic audits, restrictions and other supervisory and enforcement actions as deemed fit.

P. Repeal

26. Circular that will be repealed on issuance of these Directions is given in Appendix 2.

(Vaibhav Chaturvedi)

Chief General Manager

Appendix 1 – Reporting to Supervisors

Name of lending Institution: _____

Statement of Loans to related parties as at _____

Name of Related party	Relationship with NBFCs	Purpose of loan	Date of approval (DDMMYY)	Type of Exposure (Fund / Non-Fund based)	Amount Sanctioned (In ₹ crore)	Amount Outstanding (In ₹ crore)	Rate of Interest (%)	Remaining term to maturity (days)	Collateral		Credit Rating		Classification of Account (Standard/SMA/ NPA)	Remarks (Account Restructured/ Terms changed)	Exception Reports by Internal Auditors
									Value	Last valuation date	Internal	External			
Total Related party loans															
Total Related party loans as %															

of total loans															
Total Related party exposure as % of total Exposure															

Note- NBFCs shall report total exposure to related parties which shall include loans and advances, non-fund-based facilities, investments and positive MTM values of derivatives.

Statement of Contracts and Arrangements to related parties as at _____					
Name of Related party	Relationship with NBFCs	Date of approval	Nature of contract/ arrangement	Value of contract/ Arrangement	Important Terms & Conditions (in brief)

Appendix 2 – Repealed Circular

Sl. No	Circular Number	Date of Issue	Subject	Repealed
1.	DOR.CRE.REC.No.25/03.10.001/2022-23	April 19, 2022	Loans and Advances- Regulatory Restrictions NBFCs	Para 1, 2,3,5,6 and 7 of the Annex of the circular.

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