

'Fit and Proper' Criteria for Directors of NBFCs

Reserve Bank had issued a Directive in June 2004 to banks on undertaking due diligence on the persons before appointing them on the Boards of banks based on the 'Report of the Consultative Group of Directors of Banks / Financial Institutions'. Specific 'fit and proper' criteria to be fulfilled by the directors were also advised.

2. The importance of due diligence of directors to ascertain suitability for the post by way of qualifications, technical expertise, track record, integrity, etc. needs no emphasis for any financial institution. It is proposed to follow the same guidelines mutatis mutandis in case of NBFCs also. While the Reserve Bank does carry out due diligence on directors before issuing Certificate of Registration to an NBFC, it is necessary that NBFCs put in place an internal supervisory process on a continuing basis. Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing directors, NBFCs are advised to ensure that the procedures mentioned below are followed and minimum criteria fulfilled by the persons before they are appointed on the Boards:

- (a) NBFCs should undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. NBFCs should obtain necessary information and declaration from the proposed / existing directors for the purpose in the format given at Annex- 2.
- (b) The process of due diligence should be undertaken by the NBFCs at the time of appointment / renewal of appointment.
- (c) The boards of the NBFCs should constitute Nomination Committees to scrutinize the declarations.

(d) Based on the information provided in the signed declaration, Nomination Committees should decide on the acceptance or otherwise of the Directors, where considered necessary.

(e) NBFCs should obtain annually as on 31st March a simple declaration from the directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.

(f) The Board of the NBFC must ensure in public interest that the nominated/ elected directors execute the deeds of covenants in the format given in Annex-3.

(g) Independent /non-executive Directors nominated to the board of NBFC should be between 35 to 70 years of age.
