

Statement on the feedback received on draft Directions

Subject: Reserve Bank of India (Lending to Related Parties) Directions, 2025

The Reserve Bank had, on October 03, 2025, issued the draft Directions on Lending to Related Parties to eight regulated entities viz. Commercial Banks, Small Finance Banks Regional Rural Banks, Local Area Banks, Urban Co-operative Banks, Rural Co-operative Banks, Non-Banking Financial Companies, and All India Financial Institutions. Major feedback received and the comments thereon are summarized below¹

- 1. Paragraph 6 - Scope of Application. These Directions shall apply... with regard to lending by a bank to a 'related party' and any contract or arrangement entered into by the bank with a 'related party'.**

Feedback: (i) Comments were received from stakeholders, seeking clarity on the treatment of investment exposure such as investment in mutual funds, private equity, venture capital, IPOs/ FPOs and investment in debt securities/ corporate bond issued by related parties.

RBI Comments: Partially Accepted. Equity investments have been excluded from the scope of these directions, while investments in debt instruments of related parties are covered.

Feedback: (ii) NBFCs sought clarification of applicability of these guidelines on specific categories of NBFCs such as Type I NBFCs and Core Investments Companies.

RBI Comments: Accepted. NBFCs that do not access public funds and have no customer-interface, and Core Investment Companies, which predominantly lend to their Group Companies, shall be exempt from these guidelines.

¹ Paragraph references mainly correspond to the draft Directions issued for Commercial Banks, and the equivalent provisions may be referred to in the Directions applicable to other regulated entities. Notwithstanding this, specific paragraphs pertaining to the Draft Directions to other REs have been mentioned wherever specific comments on drafts for those REs were different from the draft for Commercial Banks.

2. **Paragraph 7 - Application to prior loans - With a view to ensuring non-disruptive implementation of these Directions, banks 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.**

Feedback: Stakeholders have requested to allow existing related party transactions that are non-compliant with the new Directions to continue till their contractual maturity and that the requirement of a one-year run-off period be dispensed with.

RBI Comments: Accepted. All existing transactions not complying with the regulatory prohibitions have been permitted to be continued till there is any enhancement, renewal, re-pricing, or any change in the terms and conditions of such transactions/facilities.

3. **Paragraph 8 (b)- 'Contract or arrangement' shall have the same meaning as specified in Section 188(1)(a) to (g) of the Companies Act, 2013.**

Paragraph 30 - Banks shall also disclose the information on loans to related parties and details of contract and arrangement with them in their notes to financial statements.

Feedback: Comments have been received suggesting that materiality threshold should also be prescribed in respect of contracts and arrangements. Some stakeholders even suggested to keep contracts and arrangements outside the disclosure requirements.

RBI Comments: Partially Accepted. Possibility of granting undue benefits to related parties through contracts is as much as through loans. Therefore, these cannot be kept completely outside the framework. However, for ease of compliance, regulated entities (REs) would be required to disclose aggregate amount of contracts and arrangements awarded to their related parties.

4. **Paragraph 8 (n) - 'Senior officer' means any officer in middle/ senior management level designated as "senior officer" as per the bank's policy on lending to related parties.**

Paragraph 16 -The policy shall also have specific provisions for lending to senior officers of the bank and their relatives.

Feedback: Some stakeholders requested a clearer, specific definition of Senior Officer, while others sought flexibility to define the term based on their institution's internal grading structure.

RBI Comments: Accepted. 'Senior officer' has been substituted with 'specified employee', defined as an employee who is placed up to two levels below the Board of the RE.

5. Paragraph 8(k) – 'Related Party' shall mean a related person as defined at Paragraph 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 or holds paid-up equity share capital of Rupees five crore, whichever is less; or...

Feedback: (i) Stakeholders' comments have flagged that the scope of definition of Related Party is very wide. It captures relatives of the related persons who are already covered as related persons.

RBI Comments: Accepted: Since relatives of a 'related person' are already included, the reference to relatives in the definition of 'related party' has been removed.

Feedback: (ii) Stakeholders' have also suggested to remove the nominal monetary threshold of ₹ 5crore from the criteria of shareholding of a related person in an entity for classifying the entity as a related party.

RBI Comments Accepted: The cap of ₹ 5 crore has been removed as a threshold criterion in the definition of related party.

Feedback: (iii) Further, stakeholders sought alignment of the definition of Related Party with the existing framework prescribed under the SEBI Listing Obligations and Disclosure Requirements. (LODR) Regulations.

RBI Comments: Not Accepted: Exact alignment with the SEBI LODR definition of Related Party was not considered, as the regulatory objectives of the two frameworks are different.

6. **Paragraph 8 (I) (vi) - “Related Person’ with respect to a bank shall mean...or is a director (excluding independent directors) of other commercial banks, AIFs, scheduled cooperative banks, subsidiaries of commercial banks as also trustees of mutual funds and alternate investment funds established by such regulated entities.**

Feedback: Comments were received from stakeholders suggesting removal of Independent Directors and Nominee Directors from the scope of these Related Party Definition.

RBI Comments: Partially Accepted. The definition has been modified to exclude nominee directors of other banks, appointed by Government/RBI or any other statutory body, from the scope of Related Party definition. However, the suggestion for exclusion of Nominee Director and Independent Directors of own Bank has not been accepted, as such directors may exercise significant influence in the decision-making process of the regulated entities.

7. **Paragraph 8 (k) (vi) Definition of Related Person and Related Party – an entity, which is accustomed to act on the advice, direction, or instruction of a related person or a relative of the related person;**

Feedback: Comments were received from stakeholders suggesting that this clause should not apply to advice, directions, or instructions given in a professional capacity.

RBI Comments: Accepted. The definition has been rationalised by providing a carve-out for advice, directions, or instructions given in a professional capacity.

8. **Paragraph 12 - ... a bank shall also be precluded from having any exposure (including investments in the equity/ debt capital instruments) to its promoters; shareholders with shareholding of 10 per cent or more in the**

paid-up equity capital of the bank; relatives of such promoters/shareholders as also the entities in which they have substantial interest.

Feedback: (i) Comments were received that the regulatory restriction on prohibition on any exposure towards entities in which shareholders (10% or more) and promoters have substantial interest may impact holding company structure.

RBI Comments: Accepted. The term 'substantial interest' in the above definition has been replaced with 'significant influence and control' as defined in the relevant accounting standards.

Feedback: (ii) Institutional investors such as mutual funds, other banks and insurance companies having non-strategic shareholding in banks may be excluded from the applicability of the directions.

RBI Comments: Accepted. A specific carve-out has been provided from the above paragraph in respect of a financial institution, a scheduled commercial bank, a foreign portfolio investor or a mutual fund holding ten per cent or more of the equity share capital of the bank as non-strategic investment and without any control of the bank.

9. Paragraph 10 (b) - A foreign bank branch in India should not lend to a firm / company in India, if a director in the foreign bank's Board abroad has (i) an interest in the firm / company or (ii) if the company is a subsidiary of any Indian / foreign parent in which the director is interested.

Feedback: Stakeholders, particularly foreign banks operating in branch mode in India, suggested that statutory restrictions be limited to the local management of foreign bank branches rather than the foreign bank's global head office or Board. They proposed that only regulatory restrictions should apply to the global head office.

RBI Comments: Not Accepted. The suggestion has not been accepted as the issue pertains to the statutory prohibitions under Section 20(1)(b) of the Banking Regulation Act, any change in that regard would be in violation of the spirit of the Act.

10. Paragraph 9 Rural Cooperative Banks- In terms of Section 20(1)(b) of the Banking Regulation Act, 1949, read with Section 56 of the Act, banks are

prohibited from entering into any commitment for granting any loans or advances to or on behalf of directors, other than certain specific exemptions permitted.

Feedback: Stakeholders requested that agricultural and allied activity loans granted to the Chairman/MD/CEO/Directors of Rural Cooperative Banks should be excluded from restrictions.

RBI Comments: Not Accepted. Considering the legislative intent of Section 20 (1)(b) of Banking Regulation Act, 1949, exemption for agricultural and allied activity loans has not been accepted as these are in the nature of business/ profession loan.

11. Paragraph 19 - Loans to related parties, which are not prohibited or restricted in terms of provisions of Chapter II of these Directions, can be extended by the banks in terms of their credit policy, subject to the specified materiality thresholds.

Feedback: (i) Stakeholders suggested revising the materiality threshold upward.

RBI Comments: Not Accepted. The materiality thresholds have been made scale-based for majority of the REs, including commercial banks, UCBs and NBFCs, with larger REs being subject to proportionately higher thresholds.

Feedback: (ii) Stakeholders requested exemptions for related-party loans that are fully secured by fixed deposits or government securities.

RBI Comments: Accepted. Loans to related parties that are fully secured by government securities, life insurance policies, or fixed deposits, where the loan-to-value ratio does not exceed 100 per cent of the realisable value of such securities, have been exempt from the requirement of Board approval.

12. Other Changes

- (i) With regard to cooperative banks, it has been decided to keep the norms broadly aligned with the extant provisions. However, in line with the scale-based approach, differential materiality thresholds have been stipulated in respect of loans permitted with Board approval. Loans to relatives of directors,

or firms/companies in which they are interested have been permitted for Tier-4 UCBs as per the materiality threshold.

(ii) With regard to All India Financial Institutions (AIFIs), it has been decided to continue the extant regulatory prohibitions on lending to directors and companies/firms in which directors have interests.