

RBI Directions on Related Party Transactions, 2026: Mandatory Committee, Penalties and Sanctions for Non-Compliance

The Reserve Bank of India ('RBI') has issued the **Non-Banking Financial Companies-Credit Risk Management (Amendment) Directions, 2026** (attached herewith), thereby amending the NBFC-Credit Risk Management Directions, 2025. These amendments aim to strengthen the credit risk management framework for NBFCs, enhance regulatory clarity, and provide flexibility for a smooth transition to the revised requirements.

The key objectives of the Amendment Directions are as follows:

- To restrict the applicability of certain provisions only to "Notified NBFCs".
- To reinforce governance and risk control frameworks for lending to related parties.
- To allow a smooth transition for existing exposures that do not meet the revised framework.

The amendments are effective from April 1, 2026, with option for early adoption.

DEFINITIONS

| S. No. | Term | Definition | Key Notes / Exceptions |
|---------------|---|---|---|
| 1. | Related Person | A person and their relatives who: (a) is a promoter, director, or KMP of the NBFC (b) holds >5% Paid up equity share capital or voting rights (c) can nominate a director through agreement (d) exercises control over the NBFC | Voting rights include individual/joint arrangements; control may be direct or indirect |
| 2. | Related Party | An entity associated with a Related Person where Related person: (a) is partner, KMP, director, or promoter (b) Holds >10% Paid up equity share capital (c) Exercises control (d) Controls >20% voting rights (e) Can nominate a director (f) Accustomed to act on advice of RP (g) is guarantor or surety (h) Private trust relationship (i) Holding, subsidiary, associate, or JV relationship | Exceptions: - Director nomination from lending excluded - Advice in professional capacity excluded - Government-owned entities not related by common ownership |
| 3. | Committee on Lending to Related Parties | Board-appointed committee (other than Audit Committee) to sanction loans to related parties. While the Directions do not specify the committee's composition, it is recommended that the committee include | Ensures independence and oversight. |

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| | | at least one Executive Director involved in day-to-day operations. | |
| 4. | Specified employees | Specified employees' mean all employees of a NBFC who are positioned upto two levels below the Board and any employee designated as such as per the NBFC's policy. | Two levels below the Board |

LENDING TO RELATED PARTIES – GENERAL PRINCIPLES

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| CREDIT POLICY Board must approve and implement a related-party lending policy including: <ul style="list-style-type: none"> - Safeguards to address risk and limits - Coverage of Specified Employees and relatives - Whistleblower mechanism - Aggregate & sub-limits for loans per RBI norms taking into consideration Extant Prudential Norms. | MATERIALITY THRESHOLDS Loans exceeding the threshold require Board or Board Committee approval below thresholds may be delegated: <ul style="list-style-type: none"> - Upper/Top Layer: ₹10 crore - Middle Layer: ₹5 crore - Base Layer: ₹1 crore |
| RECUSAL Directors, KMPs, Specified Employees must recuse themselves from decisions on loans to: <ul style="list-style-type: none"> - Themselves - Their related parties - Any material changes (restructuring, write-offs, waivers, settlements, enforcement) | MONITORING NBFCs must: <ul style="list-style-type: none"> - Maintain & update list of related parties and loans - Annual report to Board on loans to Specified Employees & relatives - Quarterly internal audit of related-party loans - Any deviation from the approved policy shall be promptly reported to the Audit Committee, Board, and statutory auditors, as applicable |

ENFORCEMENT

Non-compliance or circumvention may attract **RBI supervisory and enforcement actions**, including:

- Monetary penalties
- Full provisioning
- Staff accountability exercises
- Forensic audits
- Business or operational restrictions

DISCLOSURES IN PURSUANT TO RBI (NBFC-FINANCIAL STATEMENTS: PRESENTATION AND DISCLOSURES) DIRECTIONS, AMENDMENT DIRECTIONS, 2026

Related-party exposures are to be disclosed in the Balance sheet in accordance with RBI guidelines. You are requested to review the amended Directions and ensure timely alignment of policies, reporting mechanisms, and disclosures. For your reference, the detailed Master Directions are attached herewith.

COMPLIANCE FOR EXISTING RELATED PARTY TRANSACTIONS

Existing related party facilities not conforming to the Amendment Directions may continue until maturity. However, no renewal, review, or enhancement shall be permitted unless such transactions comply with the amended provisions.

ABOUT CHRONICLE ADVISORS LLP

Our team of dedicated professionals is well-equipped to guide you through the nuances of the evolving regulatory framework. We will extend end-to-end support to ensure seamless compliance with the revised requirements, while also identifying opportunities to strengthen business growth and enhance operational efficiency. Should you need any clarification or further assistance, please feel free to connect with us at your convenience. We remain committed to partnering with you in driving sustained compliance and long-term success in this dynamic regulatory landscape.

CONTACT US

For comprehensive and specialized **NBFC consultancy and regulatory advisory services**, please contact us at **info@chronicleadvisors.in** contact our advisory team at **+91 9818072228 / +91 9311082063**. We assist clients across the entire spectrum of NBFC operations, including regulatory compliance, RBI advisory, governance frameworks, and ongoing supervisory support. Our team is committed to delivering practical, timely, and high-quality professional solutions tailored to your business requirements.

Chronicle Advisors