

**Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) –
Amendment Directions, 2026**

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Reserve Bank of India vide notification dated January 05, 2026 amended the Reserve Bank of India (Non-Banking Financial Companies - Credit Risk Management) Directions, 2025 (“CRM Directions”), introducing the framework of “Lending to Related Parties” and removing the earlier provisions relating to Regulatory Restrictions on Loans and Advances, which has substituted the loans to director and senior officer framework with the framework of lending to related party. This substitution certainly is altogether an additional mandate for applicable NBFCs and therefore it is imperative for such regulated entities to understand certain key terms and concepts which are as stated below:

1. Who all are covered within this framework?

- As per Para 3 of the CRM directions the following type of NBFCs are outside the ambit of this framework including the amendment issued thereof:
 - a. MGC registered with RBI under the scheme of Registration of Mortgage Guarantee Companies
 - b. NBFC-P2P registered with the RBI under the provisions of the RBI Act, 1934
 - c. NBFC-AA registered with the RBI under the provisions of the RBI Act, 1934
 - d. CIC registered with the RBI under the provisions of the RBI Act, 1934
 - e. SPDs registered with the RBI as NBFCs under the provisions of the RBI Act, 1934
 - f. NOFHC registered with the RBI as NBFC under the provisions of the RBI Act, 1934
 - g. NBFC not availing public funds and not having any customer interface
 - h. NBFCs-BL having customer interface but not availing public funds

2. What is meant by “Committee on Lending to Related Parties”?

- A “Committee on lending to Related Parties” shall mean a committee of the Board of the NBFC entrusted with the responsibility of sanctioning loans to related parties.
- NBFCs may designate any existing Board Committee (other than the Audit Committee) to perform this function.

3. Who needs to carry out Credit risk Evaluation?

- Notified NBFCs are required to carry out independent and objective credit appraisal in all cases of lending. Such NBFCs must ensure that the credit evaluation process is conducted internally and must not rely solely on credit appraisal reports prepared by external consultants, particularly in-house consultants of the borrowing entity.
- For the purpose of the CRM Directions, “Notified NBFCs” include:
 - NBFC-Factors
 - NBFC-D (Deposit taking NBFCs)

- Non-deposit taking NBFCs having an asset size of ₹500 crore and above

Accordingly, such NBFCs are required to maintain robust internal credit appraisal mechanisms to ensure prudent credit risk assessment before sanctioning any lending exposure.

4. What is the definition of related party?

- Related Party with respect to a NBFC shall mean a related person, or any of the following entities:
 - a. where a related person is a partner, manager, KMP, director or a promoter; or
 - b. where a related person is a shareholder with more than ten per cent of paid-up equity share capital; or
 - c. where a related person is having control, whether singly or jointly with another person; or
 - d. where a 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
 - e. where a related person has the power to nominate a director to its Board; or
 - f. which is accustomed to act on the advice, direction, or instruction of a related person; or
 - g. where a related person is a guarantor or a surety; or
 - h. where a related person is a trustee or an author or a beneficiary and where the entity is in the form of a private trust; or
 - i. 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 nothing sub-clause (e) above shall apply in cases where the authority to nominate a director arises exclusively from a lending or financing arrangement.

Provided further that nothing in sub-clause (f) above shall apply to the advice, directions or instructions given in a professional capacity.

Provided further that Government of India/ State Government-owned or controlled entities shall not be treated as related parties to a government-owned NBFC just by virtue of the fact that the Government has the common ownership or control of such entities.

5. What is lending pursuant to these amended CRM directions?

- 'Lending' in the context of related party transactions would include funded as well as non-fund-based credit facilities to related parties. It may further be noted that investments in debt instruments of related parties are specifically included within the ambit of lending. Accordingly, the scope is not just restricted to loans and advances but includes all fund based and non-fund based exposures as well as investment exposures.

6. Who will be included in the ambit of “Specified Employees?”

- The definition of “Senior Officer” as provided under the erstwhile regulations (Para 4(1)(vii) of the CRM Directions) has been omitted and, in its place, the concept of “Specified Employees” has been introduced.
- “Specified Employees” has been defined to mean all employees of an NBFC who are positioned up to two levels below the Board, along with any other employee specifically designated as such under the NBFC’s internal policy.
- Under the erstwhile regulations, the term “Senior Officer” was given the same meaning as defined under Section 178 of the Companies Act, 2013. Thus, the terms Senior Officer included the following:
 - i. Members of the core management team,
 - ii. All members of management who are one level below the Executive Directors,
 - iii. Functional heads
- Practically, this change implies that one additional hierarchical level would now need to be designated as “Specified Employees”. Further, the specific inclusions that earlier applied under the Companies Act and the LODR Regulations i.e., functional heads under the Companies Act and CS and CFO under the LODR will no longer be automatically covered, unless they fall within two levels below the Board or are specifically designated as such under the NBFC’s internal policy.

7. What is the role of the board of directors in making the policy regarding Lending to Related Parties?

- The Board of Directors shall have the overall responsibility of ensuring that appropriate mechanisms are put in place for implementation of the policy on lending to related parties by the NBFC.
- The Credit Policy of the NBFC must specifically incorporate provisions relating to lending to related parties, including safeguards to address potential risks and conflicts of interest.
- 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 within the extant prudential exposure limits prescribed by the Reserve Bank.

8. What clauses should be included in the Credit policy?

The credit policy of the NBFC must contain specific provisions on lending to RPs. Mandatory contents of such policy will include:

- Definition of related party and Specified Employees

- Safeguards to address the risks emanating from lending to related parties
- Provisions relating to lending to ‘specified officers’ of the NBFC and their relatives
- Provisions related to a suitable whistle blower mechanism for employees to raise concerns over irregular and unethical loans to RPs. Any kind of quid pro quo arrangements should also be prohibited.
- Materiality Thresholds for sanctioning of the loans
- Interested parties to recuse themselves
- Limits for lending to related party, including sub-limits for lending to a single related party and a group of related parties
- Monitoring mechanism for such loans to RPs. This would include the designation of a specified authority for monitoring as well as reporting to the Board/Board committee. Further, procedure in case of deviation from the policy must also be prescribed.

9. Whether the requirement of framing a policy on Loans to Directors and Senior Officers is still required?

- With the introduction of the framework on Lending to Related Parties under the amended CRM Directions, the earlier provisions relating to Regulatory Restrictions on Loans and Advances, which included references to loans to Directors and Senior Officers, have been removed.
- However, NBFCs are now required to incorporate comprehensive provisions relating to lending to related parties within their Credit Policy, including provisions governing lending to Specified Employees and their relatives.
- Accordingly, while the specific regulatory requirement for maintaining a separate policy on Loans to Directors and Senior Officers may no longer be expressly prescribed under the amended CRM Directions, NBFCs should ensure that their Credit Policy or internal governance framework adequately covers lending to Directors, Key Managerial Personnel (KMPs), Specified Employees, and their related parties, in line with the new regulatory framework.

10. What is the limit of materiality thresholds and what will happen if the limit is crossed?

- Credit facilities to the related party shall be in terms of the credit policy but the limit of lending shall not be higher than the below thresholds as prescribed by the directions:

Category of NBFC	Materiality Threshold
Upper Layer / Top Layer	₹10 crore
Middle Layer	₹5 crore
Base Layer	₹1 crore

- All loans above the prescribed materiality threshold shall be sanctioned by the Board of the NBFC. However, a NBFC at its discretion, may delegate the above powers of lending beyond the materiality threshold to a Committee of the Board (hereafter called Committee) other than the Audit Committee of the Board.
- Loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them.

11. What happens if the Company crosses the thresholds prescribed under the Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014?

- Where the transaction exceeds the thresholds prescribed under Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014, the Company shall be required to comply with the provisions of the Companies Act, 2013 and the rules framed thereunder, including obtaining the necessary approvals as applicable.
- It may be noted that the requirements prescribed under the CRM Directions, as amended are in addition to, and not in derogation of, the provisions of any other applicable laws, rules, regulations, or directions currently in force.
- Accordingly, compliance with the Companies Act, 2013 and the rules made thereunder, including Rule 15 relating to related party transactions, shall continue to apply independently, and the requirements under the CRM Directions will operate as an additional regulatory layer for NBFCs.

12. What are the monitoring requirements for loans to related parties?

NBFCs are required to establish mechanisms to ensure proper monitoring of such exposures, including:

- Maintaining and periodically updating a list of related persons and related parties, along with details of loans sanctioned to them.
- Credit facilities granted to specified employees and their relatives must be reported to the Board on an annual basis.
- Periodic reviews at quarterly or shorter intervals by the internal auditors of the Company to check inter alia, whether guidelines and procedures in relation to loans to related parties are being adhered to or not.
- Any deviation from the lending policy must be reported to the Audit Committee of the Board or to the Board where an Audit Committee is not constituted.
- Products/structures circumventing these Directions (reciprocal lending, quid pro quo) shall be treated as related party lending.

13. What is the recusal requirement?

- Directors, Key Managerial Personnel (KMPs), and Specified Employees must recuse themselves from deliberations and decision-making on loan proposals involving themselves or their related parties.
- Such recusal shall also apply to decisions relating to material modifications of loan terms, including one-time settlements, waivers, write-offs, enforcement of security, or resolution plans.

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