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RBI Strengthens Governance Framework for Related Party Lending by Regulated Entities

The Reserve Bank of India (“RBI”) has issued 16 (sixteen) amendment directions (“**Amendment Directions**”) on January 5, 2026, concerning lending to related parties by entities regulated by the RBI (“**Regulated Entities**”). Effective from April 1, 2026, these directions introduce revised definitions, requirements for credit policy, materiality thresholds, disclosures, monitoring, and reporting requirements for lending to related parties by Regulated Entities. Earlier in October 2025, the RBI had issued draft amendment directions on lending to related parties by regulated entities for stakeholders’ comments (“**Draft Amendment Directions**”).

The key highlights of the Amendment Directions are as follows:

1. Definition of “Related Persons” and “Related Party”

The Amendment Directions have broadened the scope of ‘Related Persons’ under the *erstwhile directions on lending to related parties by regulated entities*, to include, in addition to the persons already covered in the definition of ‘Related Persons’, a promoter, person holding 5% of equity or voting rights whether singly, jointly, or through relatives, and a person having power to nominate a director through agreement or his/her relatives. It is noteworthy that under the Draft Amendment Directions, the proposed definition of ‘Related Persons’ included group entities. However, the definition of

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‘Related Persons’ in the Amendment Directions specifically excludes group entities from the definition of ‘Related Persons’, and such group entities fall within the definition of ‘Related Party’.

Further, the Amendment Directions also broaden the definition of ‘Related Party’ under the existing directions, to include, in addition to the entities already covered in the definition of ‘Related Party’, a promoter, entity controlling more than 20% of voting rights, entity having power to nominate a director on the board, entity being on the advice, direction, or instruction of which the entities are accustomed to act, and a trustee or an author or a beneficiary in case of such entity being a private trust.

2. **Revisions in Requirements Pertaining to Lending**

The requirements pertaining to lending to related parties by Regulated Entities have been revised. Earlier, the requirement of the credit policy of NBFCs to specifically include provisions on lending to related parties was applicable only in case of base layer NBFCs. However, under the Amendment Directions, this requirement has been extended to all NBFCs.

The revised requirements also include prescription of board approved limits and sub-limits by the Regulated Entities for lending to related parties. In this regard, lending to related parties in excess of the limit approved by the board of the Regulated Entity is required to be subject to ratification by

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the board or audit committee of such Regulated Entity.

Further, every Regulated Entity under the Amendment Directions is required to constitute or designate a board-level committee on lending to related parties, explicitly separate from the audit committee. It can be inferred that this structural separation is aimed at preventing any post-facto sanitization and to ensure structural oversight on lending to related parties.

3. Change in Materiality Thresholds for NBFCs

The thresholds for seeking board approval in case of granting loans to related parties by the NBFCs have been revised. Under the *erstwhile directions on lending to related parties by regulated entities*, for the base level NBFCs, the materiality threshold was as per the credit policy of the NBFC, whereas for the middle level and high level NBFCs it was INR 5 Crores. As per the Amendment Directions, these materiality thresholds have been revised to be INR 1 Crores for base level NBFCs, INR 5 Crores for middle level NBFCs, and INR 10 Crores for upper level NBFCs.

4. Prohibitions on Lending to Promoters and Large Shareholders

The Amendment Directions introduce prohibitions under which Regulated Entities are not permitted to lend to their own promoters or major shareholders, or to entities over which they exercise significant influence. Further, lending to spouses is permitted only on an arm's length basis and

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presence of independent income of the spouse. Additionally, only limited exemptions to the related party lending provisions are permitted, which include *inter alia* loans and advances to a director against government securities, life insurance policies or fixed deposits bearing applicable conditions, and personal loans and advances to a director as permitted under approved policy.

5. Monitoring and Reporting Requirements

Under the *erstwhile directions on lending to related parties by regulated entities*, the Regulated Entities were required to report to their board of lending loans and advances of any value to senior officers. Under the Amendment Directions, these requirements have been expanded to include, *inter alia*: (i) maintenance and updation of list of related persons and related parties on a periodic basis; (ii) reporting of any arrangements which aim at circumventing the Amendment Directions, including reciprocal lending and quid pro quo transactions, as lending to related parties; (iii) audit review (on quarterly basis or shorter intervals) on adherence to the Amendment Directions; and (iv) reporting of deviations from the Amendment Directions and reasons thereof to the audit committee or board of the Regulated Entity.

It is noteworthy that the reference to 'Senior Officer' in the *erstwhile directions on lending to related parties by regulated entities* has been replaced by 'Specified Employees', which has been defined to mean all employees who are positioned up to

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two levels below the Board along with any other employee specifically designated as such. Accordingly, the regulatory scope pertaining to lending to employees of the Regulated Entity has been considerably expanded.

Further, disclosures relating to related parties have also been expanded, and the same are additionally required to be made under a new format prescribed under the Amendment Directions.

Conclusion

The Amendment Directions represent a meaningful strengthening of regulatory framework concerning lending to related parties by Regulated Entities, aimed at increasing transparency, accountability, and prudential discipline in credit decisions. The measures introduced by the Amendment Directions are expected to bolster market confidence, align regulatory practices with robust governance norms and ensure a risk-sensitive lending system.

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