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## Shastrartha 26:

# Loans to related parties by banks and NBFCs

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# Key Highlights - Banks

1



**Simplified Framework** for contracts with **Related Parties**; definition aligned with section 188(1), CA, 2013; disclosures required in financial statements

3



**New, bank-specific definition** of “Related Party” primarily concerned with directors, KMP and their interested entities

4



Replaces concept of “senior officers” with **Specified Employees**; to be governed by **Bank’s policy**

5



**Board approved Policy on CRM** to cover aspects on lending to related parties, specify party-wise and aggregate limits for RP lending

6



**Materiality thresholds** for Related Party lending scaled in line with Bank’s capital; applicable at an individual transaction level

7



**Board level committee**, other than Audit committees, on Related Party lending beyond Materiality Thresholds.

8



**Recusal** of interested parties from deliberations and discussions on loan proposals, contracts or arrangements involving them or their related parties

9



**Enhanced Internal Audit oversight**

# Key Highlights - NBFCs

## Key Highlights



**Applicability & Effective Date:** Applicable to all NBFCs, including HFCs excluding CICs and Type 1 NBFCs. Effective from 1 April 2026 (early adoption permitted).



**Credit Policy Requirements:** The Board must ensure the NBFC's credit policy includes specific provisions for lending to related parties, aggregate limits (and sub-limits), additional safeguards to address associated risks, etc.



**Related Parties Definition:** Broadened; Earlier- no such definition was prescribed



**Committee on lending to related parties:** A Board-level committee, distinct from the Audit Committee, has been introduced for the purpose of approving lending to related parties.



**Materiality Threshold:** On individual loan transactions, the materiality thresholds are prescribed at ₹1 crore for NBFC-BL, ₹5 crore for NBFC-ML, and ₹10 crore for NBFC-UL; All lending exposure above the threshold must be sanctioned by the Board or a Specific Committee.

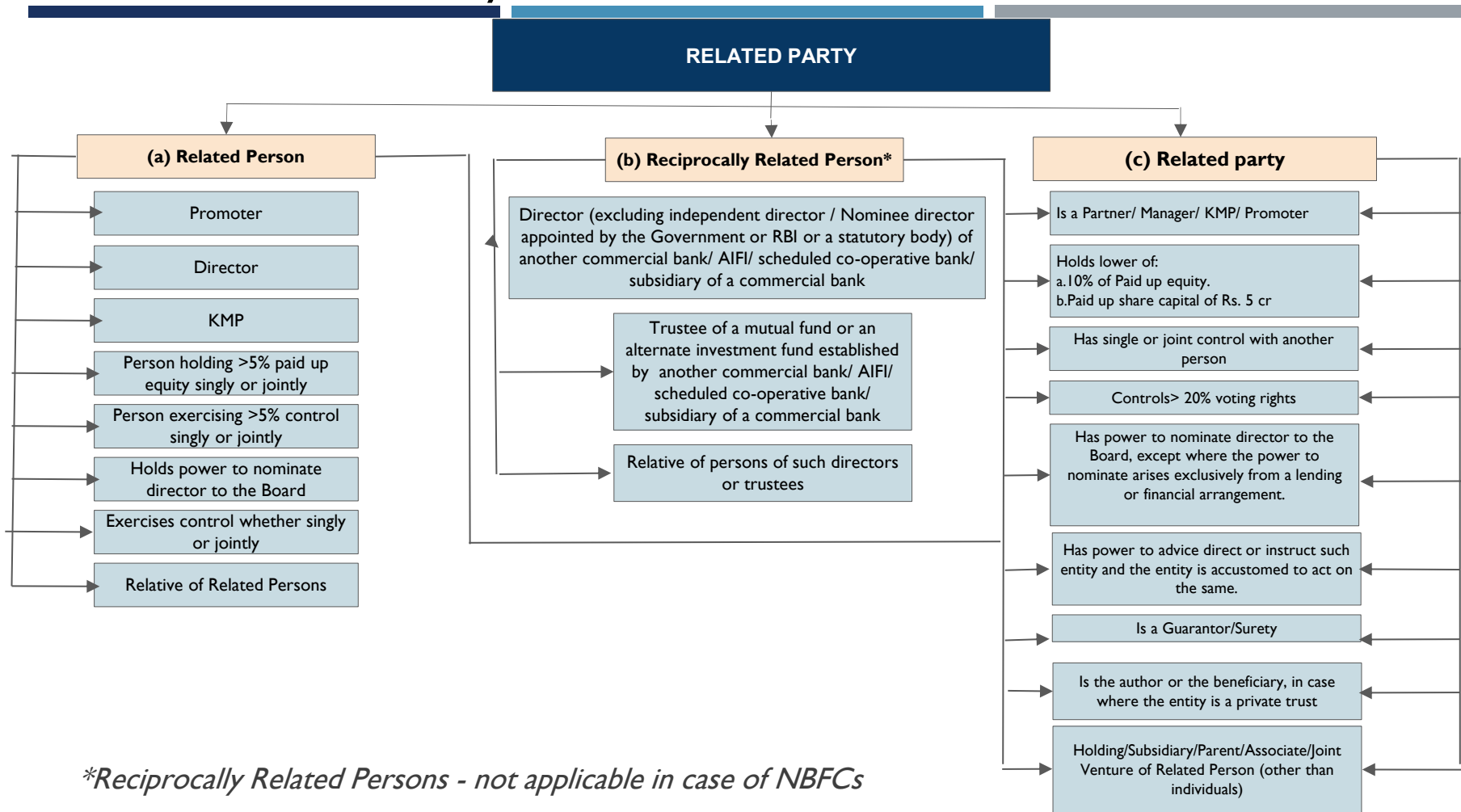


**Monitoring and Reporting:** Maintain updated records of related persons/parties and their loans, reviewed at regular intervals and reported to Board annually.



**Disclosure in Financials:** The details of exposure to related parties shall be disclosed in the "Notes to Accounts" in the prescribed format, as provided in the direction.

# Definition of Related Party



*\*Reciprocally Related Persons - not applicable in case of NBFCs*

# Definition of Related Party

| RPs under Amendment Directions   | Whether covered in the Present Regulations        |
|--|---|
| <b>(A) Related Persons:</b> These can be non-corporate   |   |
| a promoter, or a director, or a KMP of the NBFC or relatives of the said (natural) person                                      | All other persons except the promoter was covered |
| Person holding more than 5% equity or more than 5% voting rights, singly or jointly, or relatives of the said (natural) person | No  |
| Person having the power to nominate a director through agreement, or relatives of the said (natural) person                    | No  |
| Person exercising control, either singly or jointly, or relatives of the said (natural) person                                 | Yes   |

# Definition of Related Party

| RP's under Amendment Directions  | Whether covered in the Present Regulations             |
|--|--|
| <b>(B) Related Parties:</b> These can be any person other than individual/HUF, and cover <b>Entities where (A)</b> | Covered Partially                                      |
| is a partner, manager, KMP, director or a promoter   | Promoter not covered                                   |
| hold/s 10% of PUSC   | Holds lower of (i)10% of PUSC and (ii)₹5 crore in PUSC |
| has single or joint control with another person  | Yes  |
| controls more than 20% of voting rights  | No   |
| has power to nominate director on the Board  | No   |
| are such on the advice direction, or instruction of which the entities are accustomed to act                       | No   |
| is a guarantor/surety  | Yes  |
| is a trustee or an author or a beneficiary (where entity is a private trust)                                       | No   |
| Entities which are related to (A) as subsidiary, parent/holding company, associate or joint venture                | Yes  |

# Materiality Thresholds

## BANKS

| Asset Size of Bank (in crores)  | Materiality Threshold |
|---|-----------------------|
| A >10,00,000  | ₹25 crore             |
| 1,00,000 <A < 10,00,000   | ₹10 crore             |
| A < 1,00,000  | ₹5 crore              |
| Asset size based on the last audited balance sheet.<br>For loans, materiality threshold shall apply at individual transaction level |                       |

## NBFCs

| Category of NBFCs   | Materiality Threshold |
|---|-----------------------|
| Upper Layer and Top Layer   | ₹10 crore             |
| Middle Layer  | ₹5 crore              |
| Base Layer  | ₹1 crore              |
| Layer of the NBFC shall be based on the last audited balance sheet.<br>For loans, materiality threshold shall apply at individual transaction level |                       |