

# RBI Directions on Lending to Related Parties: Frequently Asked Questions

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Effective from 1st April 2026, RBI has issued [Amendments in Credit Risk Management Directions](#) to make detailed provisions relating to lending to “related parties” by the regulated entities. Separate notifications have been issued for each regulated entity, based on the [draft Directions](#) for lending and contracting with related parties issued on 3rd October, 2025. Amendments have been made in the RBI (Commercial Banks - Credit Risk Management) Directions, 2025 (“[CRM Directions](#)”), introducing, primarily, Section B.1 dealing with Lending to Related Parties. Ancillary amendments have been made in other parts of the Directions. For a quick look at the highlights of these amendments for commercial banks, see [here](#).

These FAQs aim to serve as a guide for implementation of the changes as per the revised framework applicable to commercial banks in relation to lending to and dealing with related parties and specified employees in accordance with the RBI (Commercial Banks - Credit Risk Management) Amendment Directions 2026 (“[Amendment Directions](#)”).

[Note: All discussions in these FAQs are restricted to provisions dealing with lending to related parties and specified employees (that is, from Chapter IV and V); rest of the parts of CRM Directions are not a subject matter of these FAQs]

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## Transitioning from earlier regime to revised regime under Amendment Directions

### 1. What is the applicability date of the Amendment Directions?

The Amendment Directions are effective from 1st April, 2026.

### 2. What happens to the existing RPTs that continue beyond the Effective Date and are not in conformity with the Amendment Directions?

The existing RPTs are permitted to run-off till maturity, however, any renewal or enhancement of the limits are not permitted post 1st April 2026, if the transaction is not in compliance with the Amendment Directions.

**3. What is the broad structure of the restrictions and prohibitions contained in the Amendment Directions?**

The Amendment Directions covers various types of relationships and specifies the prohibitions or permissions on dealing with such parties. These restrictions and prohibitions are over and above the statutory prohibitions on lending to directors and their interested entities under Section 20 of the BR Act. The Amendment Directions primarily puts compliance requirements and prudential norms on related party lending - with a specific prohibition on lending to upstream entities of the bank. Accordingly, the restrictions and prohibitions can be understood in the following categories:

Persons covered under Para 14 of CRM Directions (Sec 20 of BR Act)	<ul style="list-style-type: none"> <li>• Directors of the bank</li> <li>• Firm in which directors are interested as partner, manager, employee or guarantor</li> <li>• Company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest</li> <li>• Subsidiary or holding company of such company</li> </ul>	Lending prohibited, except in some cases as per Para 15A of CRM Directions
Related Parties [as per definition under Para 4(1)(ixvc)]	Refer table below	Lending permitted, subject to: <ul style="list-style-type: none"> <li>• Approval of board/ board level committee - beyond materiality thresholds</li> <li>• Absolute limits on lending - as per the Credit Policy of the bank</li> </ul>
Persons covered under Para 42H	<ul style="list-style-type: none"> <li>• Promoters of the bank and their relatives;</li> <li>• Shareholders with shareholding of 10 per cent or more in the paid-up equity capital of the bank;</li> <li>• Entities in which they (promoters, their relatives and shareholders as stated above) have significant influence or control (as defined under Ind AS 28 and Ind AS 110)</li> </ul>	Lending prohibited, except in case 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 <u>non-strategic investment</u> and <u>without any control</u> of the bank
Specified Employees [as per	<ul style="list-style-type: none"> <li>• Employees upto two levels below the</li> </ul>	Lending to the Specified Employees

definition under	board <ul style="list-style-type: none"> <li>• Other employees designated as per Bank's policy</li> </ul>	and their relatives permitted, to be governed by the Bank's policy.
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**4. What would, therefore, be immediate actionables or incremental tasks which banks will need to take care of to abide by the Amendment Directions?**

The immediate actionables include:

- Designate a board committee for sanction of loans to related parties beyond materiality thresholds
- Identify and maintain separate list for each of the aforesaid:
  - Persons covered by Para 14 (existing requirement as per Sec 20 of BR Act)
  - Persons covered by the definition of related parties under the Amendment Directions
  - Persons covered by the absolute prohibition under Para 42H of Amendment Directions
  - Persons identified as Specified Employees and their relatives
- Modify and adopt a revised Credit Risk Management Policy in line with the requirements of the Amendment Directions
- Adopt limits and sub-limits for (a) aggregate transactions with RPs, (b) transactions with each RP and (c) transactions with a group of RPs
- Sensitise relevant business teams on the materiality thresholds and the internal Credit Policy of the Bank
- Engage the services of internal auditors for periodic review (quarterly or shorter intervals)

## Meaning of Related Party

**5. Who is considered as a Related Party for the purpose of CRM Directions?**

Related Party has been defined in reference to:

- “related persons” and
- “reciprocally related persons” and
- entities in which related persons or reciprocally related persons are interested.

“Related persons” are persons who/which are directly connected with or have a relationship with the Bank. On the other hand, “reciprocally related persons” are persons who are connected with or have a relationship with other Banks. Related parties are all those entities where either the “related persons” or “reciprocally related persons” or their relatives are interested.

**6. How does the definition of Related Party under the CRM Directions compare with the definition of Related Party under corporate laws (Companies Act/ SEBI LODR) and AS-18?**

The definition of Related Party under the CRM Directions is quite broader and different that what is covered by other corporate laws or accounting standards. A comparison of the definition along with whether such party was earlier covered

by any restrictions under the CRM Directions (prior to the Amendment Directions becoming effective) has been tabulated as under:

<b>RP as per CRM Directions (as amended)</b>	<b>Covered under other laws (CA/ AS 18/LODR)?</b>	<b>Covered under Extant <u>Directions</u> (pre-amendment)?</b>
<b>Related Persons</b>		
Promoter <sup>#</sup> of Bank	Covered under LODR	Not covered
Relatives <sup>#</sup> of Promoter	Covered under LODR (promoter group)	Not covered
Directors <sup>##</sup> of Bank	Covered under CA, 2013*	Covered
Relatives of Director	Covered under CA, 2013	Covered
KMP <sup>#</sup> of Bank	Covered under CA, 2013	Senior Officer
Relatives of KMP	Covered under CA, 2013	Relatives of Senior Officer
Shareholder of Bank > 5% of paid-up equity share capital	Under SEBI LODR, shareholding of <b>10% or more</b> is covered	Not covered
Relatives of such shareholders	Not covered	Not covered
Person exercising >5% of voting rights of Bank, singly or jointly or on account of either ownership or voting agreement through shareholders' agreement or through any other arrangement	Not covered	Not covered
Relatives of such persons	Not covered	Not covered
Person having power to nominate director on the Bank's board as per agreement	Not covered	Not covered
Relatives of such persons	Not covered	Not covered
Persons in single or joint control <sup>#</sup> of the Bank	Covered under AS 18*	Not covered
Relatives of such person	Covered under AS 18	Not covered
<b>Reciprocally Related Persons</b>		
Director (excluding independent director / Nominee director)	Not covered	Directors (including the Chairman/Managing Director) of

appointed by the Government or RBI or a statutory body) of another commercial bank/ AIFI/ scheduled co-operative bank/ subsidiary of a commercial bank		other Banks / Scheduled Co-operative Banks
Trustee of a mutual fund or an alternate investment fund established by another commercial bank/ AIFI/ scheduled co-operative bank/ subsidiary of a commercial bank	Not covered	Trustees of Mutual Funds/Venture Capital Funds set up by the financing banks or other banks
Relative of persons of such directors or trustees	Not covered	Covered
<b>Related Parties</b>		
Entity in which RP or RRP is a partner	Only such firms where <b>the director, manager, or their relative</b> is a partner	Any firm in which any of the relatives of the senior officers of the Bank or directors of other banks including Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds is interested as a partner
Entity in which RP or RRP is a manager	Not covered	Not covered
Entity in which RP or RRP is a KMP	Not covered	Not covered
Entity in which RP or RRP is a director	<ul style="list-style-type: none"> <li>Private companies in which <b>director, manager, or his relative</b> is a director are covered</li> <li>For public companies, additional condition of shareholding is applicable</li> </ul>	Any company in which any of the directors of other banks including Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds is interested as a director
Entity in which RP or RRP is a promoter	To the extent of promoter's interest, may get covered as a part of promoter group under SEBI LODR	Not covered
Entity in which RP or RRP is a shareholder > 10% of paid-up equity share capital	<ul style="list-style-type: none"> <li>Private company in which director, manager or his relative is a member</li> <li>For public companies, additional condition of directorship is applicable alongside shareholding</li> </ul>	Any company in which any of the relatives of the senior officers of the Bank or any of the directors of other banks including Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds holds

		substantial interest
Entity in which RP or RRP is having control, whether singly or jointly with other person	<ul style="list-style-type: none"> <li>• Entities controlled by promoters - covered under SEBI LODR (promoter group)</li> <li>• Enterprises over which KMP or their relatives or controlling shareholders have significant influence - covered under AS 18</li> </ul>	Not covered
Entity in which RP or RRP controls > 20% of voting rights on account of ownership/ voting arrangement/ any other arrangement	May get covered under AS 18 if the same amounts to significant influence by KMPs or their relatives	Not covered
Entity in which RP or RRP has power to nominate director on its board	Not covered	Not covered
Entity which is accustomed to act on the advice, direction, or instruction of RP or RRP	any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;	Not covered
Entity in which RP or RRP is a guarantor or a surety	Not covered	Any company in which any of the relatives of the senior officers of the Bank or directors of other banks including Scheduled Co-operative Banks, directors of subsidiaries/ trustees of mutual funds/venture capital funds is a guarantor
Entity (private trust) in which RP or RRP is a trustee or an author or a beneficiary	Certain combinations may get covered under AS 18	Not covered
Entity in which RP or RRP is related as a subsidiary/ parent company/ holding company/ associate/ JV <i>[This clause will be relevant particularly for promoter entities or corporate shareholders holding &gt;5% shareholding/ voting rights, in other cases, the RP or RRP would be an individual and hence, not possible]</i>	Cover under SEBI LODR - to the extent of promoter group entities	Any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest

# as defined under Companies Act, 2013

## as defined in Explanation (b) to section 20 of BR Act, and includes a nominee director and independent director

\* persons covered under the definition of CA, 2013 and AS 18 are also covered by SEBI LODR

## Lending to Related Parties

### 7. What is the meaning of “lending”?

For the purpose of CRM Directions, “lending” has been defined to mean:

- Funded facilities to RPs
- Non-fund based facilities to RPs
- Investment in debt securities

Only investments in equity instruments are excluded. Accordingly, both credit and investment exposures are covered, except for exposure to equity.

### 8. Whether investment in debt securities would also mean purchase of debt securities of Related Party from the secondary market?

Since this ultimately results in the bank acquiring an exposure on the related party, the same should also be considered as lending.

### 9. What are the compliances applicable to lending to related parties?

Banks are required to ensure compliance with the following in relation to lending to a related party:

- Lending to RPs shall be subject to the board-approved limits set out in the Credit Policy of the Bank
- Individual loans beyond the materiality thresholds require approval of the board or board-level committee on lending to related parties
- Interested directors, KMPs and specified employees etc shall recuse themselves from participation in the deliberations and decision-making, including for any subsequent material changes to the terms of such loans, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc.
- Monitoring of lending to RPs
- Reporting of exposures of RPs in the financial statements of the Bank

### 10. Is there an overlap between the compliance framework under the CRM Directions vis-a-vis Companies Act/ SEBI LODR?

The compliance framework under the CRM Directions vis-a-vis the Companies Act/ SEBI LODR are different in many ways, such as:

Point of comparison	CRM Amendment Directions	Listing Regulations	Companies Act
Scope of coverage	Loans, non-funded facilities, investment in debt securities	Any transfer of resources, obligations or services	Contracts as enumerated u/s 188 (1)
Meaning of related	Directors, KMPs, promoter, their	Wide definition, including sec	As defined in sec. 2 (76),

<b>party</b>	relatives, entities in which either of them have specified interest (partnership, shareholding, control, etc).  <b>Does not include Company's own holding company, subsidiaries or associates</b>	2 (76) of CA, accounting standards, promoter, promoter group entities, shareholders with 10% or more shareholding	primarily including directors, KMPs, their relatives, private companies where such persons are a director or member, public companies with directors' 2% shareholdings.  <b>Includes entity's own subsidiaries, associates, JVs, holding company</b>
<b>Concept of "reciprocally related party"</b>	In line with the statutory restrictions, includes directors/relatives on the boards of other banks, AIFs, trustees of mutual funds set up by other banks	Does not exist; however, a purpose-and-effect test exists whereby surrogate transactions may be covered.	Does not exist
<b>Primary approving body</b>	Committee on Lending to Related Parties, or the Board	Audit Committee	Audit Committee; or the Board
<b>Shareholders' approval</b>	Not required	Required if crossing materiality threshold	Required if not on in ordinary course of business+ arm's length, and crossing materiality threshold
<b>Materiality threshold</b>	Being linked with a single loan exposure, ranges from Rs 5 crores to Rs 25 crores depending on Bank's capital	Being aggregated for transactions during a FY, ranges from 10% of the entity's consolidated turnover to Rs 5000 crores based on consolidated turnover of the entity	Usually based on 10% of turnover or net worth (depending on transaction type)

**11. Whether the approval of the Audit Committee (as per Companies Act/ SEBI LODR) is also required for transactions undertaken with related parties as per the CRM Directions?**

No, the approval of the Audit Committee and other related compliances in terms of the Companies Act and/ or SEBI LODR is not required for lending to/ entering into transactions with such parties that do not qualify as related parties under Companies Act/ SEBI LODR.

**12. For persons who are covered under the meaning of "related party" for both CRM Directions and Companies Act/ SEBI LODR, whether the bank shall be exempt from the compliance requirements under LODR in view of the applicability of the CRM Directions?**

No, the CRM Directions specifies certain aspects of control w.r.t. Lending to related parties, however, the same does not override the compliance requirements applicable in terms of other applicable laws.

Para 42R of the Amendment Directions also explicitly states that: *In addition to the provisions of Chapter V on lending to related parties, listed banks shall continue to comply with the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.*

**13. Can Directors and KMP participate in the discussion for loan proposals to themselves or their related parties?**

Directors and KMP must recuse themselves from participation in the deliberations or the decision-making for loan proposals, contracts or arrangements involving themselves or their related parties and subsequent material changes to the terms of such loans, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc. [Para 42L]

## Committee on Lending to Related Parties

**14. Is it mandatory for the board to constitute a separate committee on lending to related parties?**

No, the Directions require loans beyond the prescribed materiality threshold to be sanctioned by either the board or by the committee on lending to related parties. Hence, the powers may also be exercised by the board directly, without constituting a separate committee on lending to related parties.

**15. Can the Committee on Lending to Related Parties be the same as the Audit Committee of the Bank?**

The Committee on Lending to RPs is defined in Para 4.1.iiia of the Directions as:

*‘Committee on lending to related parties’ shall mean a **committee of the Board of the bank entrusted with sanctioning of loans to related parties.** Banks **may also identify any existing Committee, other than the Audit Committee, for this purpose.***

Hence the Directions clearly restricts delegation of sanctioning of loans to the Audit Committee. This may be based on the conflict with the RBI (Commercial Banks - Governance) Directions, 2025 that specifies that: *“The Chair of the ACB shall not be a member of any committee of the Board which has a mandate of sanctioning credit exposures”.*

**16. Is the committee required to be a board-level committee or the same may be a management committee?**

The Directions require the committee to be a committee of board, hence, needs to be composed of directors, other than the Chairman of AC.

## Materiality Thresholds for Lending to Related Parties

**17. What are the Materiality Thresholds for Lending to Related Parties?**

Para 42I of the Directions prescribes the materiality thresholds for loans to RPs, based on the total asset size of the Bank:

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. For loans, materiality threshold shall apply at individual transaction level
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Further, the board of the banks may provide varying materiality thresholds for different categories of the loans, through its policy.

**18. Are the materiality thresholds applicable at an individual transaction level or aggregation is required on the basis of RP?**

The materiality thresholds are applicable at an individual transaction level, hence, neither aggregation of all loans to each party, or loans to all related parties is required.

**19. What happens if a loan to an RP is above the Materiality Threshold?**

Any loan to a related party above the materiality thresholds shall be sanctioned either by the Board or by the 'Committee on Lending to Related Parties' of the Bank.

**20. Who is the approving authority for loans below the Materiality Threshold?**

Any loan to a related party below the Materiality Thresholds can be approved by the appropriate authority to whom powers have been delegated to approve loans.

**21. Are there any exceptions to the applicability of the Material Thresholds?**

The Materiality Thresholds do not apply to:

- a. credit facilities fully secured by cash or liquid securities and in accordance to prescribed LTV and valuation norms for such securities and
- b. Interbank loans

**22. Are the Materiality Thresholds same as the limits on RP lending required to be specified in the Credit Policy of the Banks?**

No, the Materiality Thresholds are specified by the Directions, and require specific sanction from board/ board-level committee for exceeding such thresholds.

On the other hand, the Directions also requires the board of the banks to adopt limits for lending to RPs, including sub-limits for lending to a single related party and a group of related parties, as a part of its Credit Policy. These limits are the maximum limits up to which the bank may take exposure to a related party.

## Board approved limits for Lending to Related Parties

**23. What are the board approved limits for lending to RPs?**

The Board shall approve limits for: (a) aggregate transactions with RPs and (b) sub limits for lending to a single RP and a group of RPs. Similarly, the Bank may prescribe different limits for different categories of loans to related parties.

**24. What shall be the basis for setting such limits? Is the decision entirely at the discretion of the Board?**

The limits shall be decided at the discretion of the Board, and may be based on the ticket size of loans generally offered by the Bank to customers of a similar segment - individuals, corporate etc. This ensures that the same is in line with the general product offering of the Bank to its customers.

**25. Can the limits be set on a percentage basis or absolute values are required to be set?**

While there is no specific regulatory prescription, in our view, limits based on absolute value may not be feasible. The Bank may instead specify limits as a percentage of its total regulatory capital, in alignment with the exposure norms.

**26. Are the limits required to form a part of the CRM policy?**

Yes.

## Credit Policy

**27. What are the minimum contents related to lending to RP to be covered in the Credit Risk Management Policy?**

Para 5 of the CRM Directions require the Board-approved policy on CRM to cover, amongst others, aspects related to lending to RPs. Some of the specific requirements from the Policy are specified in Section B.1.1. of the Directions. The Policy should include the following minimum contents or information:

- a. Meaning of RPs and Specified Employees
- b. Safeguards to address the risks emanating from lending to related parties
- c. Provisions relating to lending to 'Specified Employees' of the Bank and their relatives
- d. Provisions related to a suitable whistleblower mechanism for employees to raise concerns over irregular and unethical loans to RPs. Any kind of *quid pro quo* arrangements should also be prohibited.
- e. Materiality Thresholds for sanctioning of the loans and authority for sanctioning loans above materiality thresholds
- f. Limits for lending to RPs, including sub-limits for lending to a single related party and a group of related parties
- g. Recusal of interested parties from discussion and decision making
- h. Monitoring mechanism for such loans to RPs
- i. Consequences of deviation from the Policy

**28. Does the Amendments also require changes in the RPT Policy of the Bank?**

The safeguards in relation to dealing with related parties under the CRM Directions are required to form part of the Credit Policy of the Bank. The same does not impact or require changes in the RPT Policy of the banks.

## Lending to Specified Employees

**29. Who can be considered as a Specified Employee?**

The term has been defined as *'All employees of a bank who are positioned up to two levels below the Board and any employee*

designated as such as per the bank's policy.'

**30. Is the expression “specified employee” the same as “senior management personnel” as per Companies Act/ LODR?**

The term “senior management personnel” is defined in the Companies Act and SEBI LODR as:

<b>Companies Act</b>	<b>SEBI LODR</b>	<b>Amendment Directions</b>
<p>The expression “senior management” means personnel of the company who are</p> <ul style="list-style-type: none"> <li>- members of its core management team</li> <li>- excluding Board of Directors</li> <li>- comprising all members of management one level below the executive directors,</li> <li>- including the functional heads.</li> </ul>	<p>“senior management” shall mean the officers and personnel of the listed entity who are</p> <ul style="list-style-type: none"> <li>- members of its core management team,</li> <li>- excluding the Board of Directors, and</li> <li>- shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors)</li> <li>- and shall specifically include the functional heads, by whatever name called and</li> <li>- the persons identified and designated as key managerial personnel, other than the board of directors, by the listed entity</li> </ul>	<p>All employees of a bank who are</p> <ul style="list-style-type: none"> <li>- positioned up to two levels below the Board and</li> <li>- any employee designated as such as per the bank's policy</li> </ul>

Thus, the scope of the term “senior management personnel” is vast and more prescriptive, with lesser flexibility with an entity to designate a person as such. On the other hand, the term “specified employees” is primarily based on reporting lines, along with bank's discretion to designate other employees as specified employees.

**31. Does the term ‘specified employee’ entirely replace the term ‘senior officer’ under the old regime?**

Yes. “Specified Employees” has been used in substitution of the term “Senior Officer” [refer *Para 4* of the [Statement on the feedback received on draft Directions](#)]

**32. How is the term ‘Specified Employee’ under the Amendment Directions different from the term ‘Senior Officer’ under the Erstwhile Directions?**

<b>Specified Employee</b>	<b>Senior Officer</b>
<p>“Specified employees’ mean all employees of a bank who are positioned up to two levels below the Board and any employee designated as such as per the bank's policy.</p>	<ul style="list-style-type: none"> <li>(i) any officer in senior management level in Grade IV and above in a nationalised bank, and</li> <li>(ii) any officer in equivalent scale               <ul style="list-style-type: none"> <li>(a) in the State Bank of India, and</li> <li>(b) in any banking company incorporated in India.</li> </ul> </li> </ul>

Thus, while the Erstwhile Directions specified the ranks and positions based on which a person would be considered as Senior Officer, the Amendment Directions identify Specified Employees on the basis of reporting lines, and further, provides discretionary powers to the board to the bank to identify a person as Specified Employee.

**33. What benefit does this amendment provide?**

The present definition provides more flexibility to the banks to designate persons as Specified Employees based on its internal grading structure as against the past definition which restricted the scope to a fixed designation.

**34. What are the compliance requirements on lending to Specified Employees?**

Lending to Specified Employees and their relatives are governed by the Credit Policy of the Bank.

**35. Can Specified Employees participate in the decision making process for lending to themselves or their related parties?**

Specified Employees must recuse themselves from participation in the deliberations or the decision-making for loan proposals, contracts or arrangements involving themselves or their related parties and subsequent material changes to the terms of such loans, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc. [Para 42L]

**36. Is there any disclosure requirement for lending to Specified Employees or their relatives?**

The credit facilities sanctioned to the Specified Employees or their relatives are required to be reported to the Board on an annual basis. [Para 42N]