NBFC Reporting and Related Party Lending: Key Insights from Mehta & Mehta Webinar Series

The Reserve Bank of India (RBI) continues to strengthen the governance and transparency framework for Non-Banking Financial Companies (NBFCs). With the release of the **Supervisory Reporting Directions, 2024** and the **Draft Regulatory Framework on Lending to Related Parties, 2025**, RBI aims to unify compliance, enhance data integrity, and reinforce corporate ethics in the financial ecosystem.

In a recent session hosted by **Mehta & Mehta**, industry experts and professionals explored how these regulatory updates will redefine the operational, compliance, and governance expectations for NBFCs. The discussion highlighted RBI's clear intent to move from fragmented filings and subjective discretion toward **data-driven supervision and principle-based governance**.

1. RBI's Supervisory Reporting Directions, 2024 — From Fragmented Filings to Unified Oversight

Objective and Scope

RBI's new directions consolidate years of circulars and returns into a single, structured framework. Applicable to all NBFCs (excluding HFCs), All-India Financial Institutions, and select cooperative banks, the framework ensures uniformity, timeliness, and accuracy in reporting.

Key Compliance Expectations

- **Board Accountability:** Boards and senior management are responsible for data aggregation, validation, and ensuring IT infrastructure supports accurate reporting.
- **Automation Focus:** RBI encourages automation of data extraction and filing to reduce manual errors and enhance reliability.
- **Fixed Periodicity:** Returns are now classified as weekly, fortnightly, monthly, quarterly, half-yearly, or annual with standardized reference dates.
- **Nil Returns Mandatory:** Even when no reportable data exists, entities must submit a nil return — emphasizing RBI's "no data gap" policy.

Core Returns under the Framework

- **DNBS-01/02/03:** Financial and prudential parameters, capital adequacy, sectoral exposure, and provisioning norms.
- **DNBS-04 (A/B):** Liquidity and interest-rate sensitivity returns, ensuring robust liquidity risk management.
- **Acrylic Returns:** Borrower-wise exposures of ₹5 crore and above, along with defaults and recoveries.

- **DNBS-10:** Statutory Auditor Certificate to be filed within five working days post-audit — a sharp reduction from the earlier one-month timeline.
- **FMR-1 to FMR-4:** Fraud monitoring and incident reporting returns.

Expert Insights

- **Data Integrity over Form-Filling:** "These returns aren't mere filings—they are the RBI's window into the NBFC's financial health," noted one panelist.
- **Audit Readiness:** All data points should reconcile with accounting records and be backed by verifiable documentation.
- **Automation Imperative:** Panelists cautioned that manual data handling invites compliance risk; RBI now expects system-based generation and submission.

Practical Considerations

- NBFCs must document aggregation logic, data sources, and transformation rules used for filings.
- Periodic data quality checks and escalation mechanisms for discrepancies are mandatory.
- IS (Information Systems) audits should be conducted by **independent external agencies**, not internal teams, to ensure objectivity.

2. Draft Regulatory Framework on Lending to Related Parties, 2025 — Toward Transparent Dealings

Background and Intent

Released on **October 3, 2025**, the draft framework aims to harmonize lending governance across NBFCs and align with existing provisions under the **Companies Act, 2013** and **SEBI (LODR) Regulations**. It replaces the earlier circular on Loans and Advances to Directors and Related Parties (2022) and will be effective from **April 1, 2026** after public consultation.

Expanded Definition of Related Parties

The draft adopts a **comprehensive, principle-based definition**, covering:

- Individuals or entities with **direct or indirect control** over the NBFC;
- Relatives, promoters, or shareholders with **>10% shareholding or ₹5 crore equity**, whichever is less;
- Entities where such persons have **board nomination rights or voting agreements**;
- Private trusts, associates, and joint ventures where influence or benefit exists.

Government-owned entities are exempt from being treated as related parties merely due to common ownership.

Governance and Credit Policy Requirements

NBFCs must:

- Integrate a **specific section on related party lending** within their credit policy;
- Define **aggregate and sub-limits** for related party exposures;
- Mandate **Board or Committee approval** for transactions exceeding thresholds;
- Implement a **whistle-blower mechanism** for unethical or non-arm's-length dealings;
- Establish periodic **semi-annual reporting and disclosures** to RBI and in financial statements.

Materiality and Transition Provisions

- Thresholds proposed: ₹1 crore (base layer), ₹5 crore (middle layer), and ₹10 crore (upper layer).
- Existing non-conforming exposures may continue until **maturity or one year** from notification, whichever is earlier.

Expert Takeaways

- **Preventing Conflicts:** Panelists emphasized that most governance failures in finance stem from opaque related-party dealings; this draft aims to plug those gaps.
- **Harmonization with SEBI & Companies Act:** By aligning definitions and disclosures, RBI ensures consistency across corporate and financial regulations.
- **Fair Lending Practices:** The framework reinforces prudential exposure limits — 25% of own funds to a single party and 40% to a group.
- **Accountability:** "Lending to insiders will no longer escape scrutiny. Transparency is the new currency of trust," remarked one expert.

3. IT Audits, Data Controls, and Operational Preparedness

The session also touched upon the growing interlinkage between **IT governance** and **regulatory reporting**. Panelists noted that NBFCs must invest in **secure IT architecture**, conduct **periodic vulnerability assessments**, and maintain **business continuity and disaster recovery (BCP/DR)** frameworks.

External IS audit reports should be reviewed by the **Audit Committee** and placed before the **Board**, reinforcing that digital resilience is integral to compliance integrity.

4. The Governance Imperative

Speakers from the Mehta & Mehta panel, including representatives from JM Financial and Coromandel Group, stressed that the regulatory paradigm now demands **substance over form**.

- **Risk and Internal Audit** are no longer support functions but **regulatory partners** ensuring that governance is embedded in day-to-day decision-making.
- **Independent Directors and Audit Committees** play a pivotal role in ensuring data reliability, fair transactions, and ethical governance.

5. Key Challenges Identified

- Difficulty in sourcing **Independent Directors with IT and compliance expertise**.
- Significant **documentation and system-integration burden** for mid-sized NBFCs.
- Need for stronger collaboration between **Company Secretaries, CFOs, CISOs, and Compliance Officers**.
- Continuous upskilling to interpret and implement evolving RBI frameworks.

Conclusion

The Mehta & Mehta session reinforced that RBI's evolving regulatory landscape is built on three pillars **transparency, accountability, and digital trust**. The **Supervisory Reporting Directions (2024)** and **Draft Related Party Lending Directions (2025)** collectively mark a transition from rule-based compliance to **risk-based governance**.

For NBFCs, success will hinge on their ability to automate reporting, strengthen internal controls, and institutionalize ethical governance.

As panelists aptly concluded:

"Compliance today is not just about filing returns it's about proving credibility through data and conduct."

 To access the full webinar recording and related resources, visit: YouTube Channel: *"Decoding Corporate Laws with Mehta & Mehta"*