

**Draft Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025**

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**Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025**

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## **Introduction**

Non-Banking Financial Companies (NBFCs), in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of NBFCs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of NBFCs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

Accordingly, in exercise of powers conferred by sections 45JA, 45L and 45M of the Reserve Bank of India Act, 1934; and section 3 read with section 31A and section 6 of the Factoring Regulation Act, 2011, the Reserve Bank being satisfied that it is necessary and expedient in the public interest to do so, hereby issues these Directions hereinafter specified.

## **Chapter-I - Preliminary**

### **A. Short title and Commencement**

1. These directions shall be called the Reserve Bank of India (Non-Banking Financial Companies - Credit Risk Management) Directions, 2025.
2. These directions shall come into force with immediate effect.

### **B. Applicability**

3. These directions shall be applicable to Non-Banking Finance Companies (hereinafter collectively referred to as 'NBFCs' and individually as an 'NBFC') excluding Housing Finance Companies.

## C. Definitions

4. (1) In these Directions, unless the context otherwise requires,
- i) 'Credit Default Swap (CDS)' means a bilateral derivative contract on one or more reference assets in which the protection buyer pays a fee through the life of the contract in return for a credit event payment by the protection seller following a credit event of the reference entities.
  - ii) Credit event payment – the amount which is payable by the credit protection seller to the credit protection buyer under the terms of the credit derivative contract following the occurrence of a credit event. The payment shall be only in the form of physical settlement (payment of par in exchange for physical delivery of a deliverable obligation).
  - iii) Deliverable asset/ obligation – any obligation (as per Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022) of the reference entity which shall be delivered, under the terms of the contract, if a credit event occurs. (Assets under this clause will rank at least pari-passu or junior to the underlying obligation).
  - iv) 'Major shareholder' shall mean a person holding 10 percent or more of the paid-up share capital or rupees five crore in paid-up shares, whichever is less.
  - v) Reference obligation - the obligation (as per Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022) used to calculate the amount payable when a credit event occurs under the terms of a credit derivative contract. [A reference obligation is relevant for obligations that are to be cash settled (on a par-less-recovery basis)].
  - vi) Relative shall have the meaning assigned to it under Clause (77) of Section 2 of the Companies Act, 2013.

- vii) 'Revaluation Reserve' means a reserve created on the revaluation of assets or net assets represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.
- viii) 'Substantial Interest' means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds 10 per cent of the paid-up capital of the company; or the capital subscribed by all the partners of a partnership firm.
- ix) Underlying asset/obligation – The asset which a protection buyer is seeking to hedge.

(2) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, or the Reserve Bank of India Act, 1934 and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or in other relevant regulations issued by the Reserve Bank or as used in commercial parlance, as the case may be.

## **Chapter-II - Board Approved Policies**

5. NBFCs shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, *inter alia*, cover aspects related to loans and advances to directors, NBFCs as a user in credit default swaps (CDS). The specific aspects to be addressed in these policies are also detailed in the relevant paragraphs of this Directions.

## **Chapter-III – Statutory and Regulatory Restrictions**

### **A. Loans and advances to Directors -**

6. For the purpose of this chapter, the term “control” shall have the meaning assigned to it under Clause (27) of Section 2 of the Companies Act, 2013. The term “Senior Officer” shall have the same meaning as assigned to “Senior Management” under Section 178 of the Companies Act, 2013.

### **A.1 Guidelines applicable to NBFC - Middle Layer (ML) and NBFC - Upper Layer (UL) - Regulatory Restrictions on Loans and Advances**

7. Unless sanctioned by the Board of Directors/ Committee of Directors, NBFCs shall not grant loans and advances aggregating Rupees five crores and above to -
  - (i) their directors (including the Chairman/ Managing Director) or relatives of directors.
  - (ii) any firm in which any of their directors or their relatives is interested as a partner, manager, employee or guarantor.
  - (iii) any company in which any of their directors, or their relatives is interested as a major shareholder, director, manager, employee or guarantor.

**Provided that** a director or her relatives shall be deemed to be interested in a company, being the subsidiary or holding company, if she is a major shareholder or is in control of the respective holding or subsidiary company.

**Provided that** the director who is directly or indirectly concerned or interested in any proposal should disclose the nature of her interest to the Board when any such proposal is discussed. She should recuse herself from the meeting unless her presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

The proposals for credit facilities of an amount less than Rupees five crore to these borrowers may be sanctioned by the appropriate authority in the NBFC under powers vested in such authority, but the matter should be reported to the Board.

8. Loans and advances to Senior Officers of the NBFC – NBFCs shall abide by the following when granting loans and advances to their senior officers:
  - (i) Loans and advances sanctioned to senior officers of the NBFC shall be reported to the Board.
  - (ii) No senior officer or any Committee comprising, inter alia, a senior officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to a relative of that senior officer. Such a facility shall be sanctioned by the next higher sanctioning authority under the delegation of powers.
9. Loans and advances to Real Estate Sector - While appraising loan proposals involving real estate, NBFCs shall ensure that the borrowers have obtained prior permission from government/ local government/ other statutory authorities for the project, wherever required. To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government / other statutory authorities.
10. In respect of grant of aforementioned loans mentioned at paragraph 8 and paragraph 9 above –
  - (i) NBFCs shall obtain a declaration from the borrower giving details of the relationship of the borrower to their directors/ senior officers for loans and advances aggregating five crore rupees and above. NBFCs shall recall the loan if it comes to their knowledge that the borrower has given a false declaration.
  - (ii) These guidelines shall be duly brought to the notice of all directors and placed before the NBFC's Board of Directors.
  - (iii) NBFCs shall disclose in their Annual Financial Statement, aggregate amount of such sanctioned loans and advances as per template provided in the Annex I.
11. The norms relating to grant of loans and advances will equally apply to awarding of contracts.

**Explanation:** The term ‘loans and advances’ will not include loans or advances against:-

- (i) Government securities
- (ii) Life insurance policies
- (iii) Fixed deposits
- (iv) Stocks and shares
- (v) Housing loans, car advances, etc. granted to an employee of the NBFC under any scheme applicable generally to employees.

**Provided that** NBFC’s interest/lien is appropriately marked with legal enforceability.

#### **A.2 Guidelines applicable to NBFC - Base Layer (BL) - Loans to Directors, Senior Officers and relatives of Directors**

12. NBFCs shall have a Board approved policy on grant of loans to directors, senior officers and relatives of directors and to entities where directors or their relatives have major shareholding. The Board approved policy shall include a threshold beyond which loans to abovementioned persons shall be reported to the Board. Further, NBFCs shall disclose in their Annual Financial Statement, aggregate amount of such sanctioned loans and advances as per template provided in the [Annex - I](#).

#### **B. Loans against NBFC’s own shares**

13. No NBFC shall lend against its own shares.

## **Chapter-IV - Regulations on Credit Default Swaps (CDS) – NBFCs as Users**

14. NBFCs shall only participate in CDS market as users. As users, they shall buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not sell protection and hence shall not enter into short positions in the CDS contracts. They shall exit their bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond or by assigning the contract to any other eligible market participant through novation (only in case of events such as winding-up or mergers/ acquisitions).
15. Apart from complying with all the provisions above, NBFCs shall, as users, also ensure that the guidelines enclosed including operational requirements for CDS as provided below, are fulfilled by them.

### **(1) Operational requirements for CDS**

- (i) A CDS contract shall represent a direct claim on the protection seller and shall be explicitly referenced to specific exposure, so that the extent of the cover is clearly defined and incontrovertible.
- (ii) Other than non-payment by a protection buyer of premium in respect of the credit protection contract, it shall be irrevocable.
- (iii) There shall be no clause in the contract that shall allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.
- (iv) The CDS contract shall be unconditional; there shall be no clause in the protection contract outside the direct control of the NBFC that could prevent the protection seller from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.
- (v) The credit events specified by the contracting parties shall at a minimum cover:
  - (a) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace

- period that is closely in line with the grace period in the underlying obligation);
- (b) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
  - (c) restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event;
  - (d) when the restructuring of the underlying obligation is not covered by the CDS, but the other requirements in paragraph 15 are met, partial recognition of the CDS shall be allowed. If the amount of the CDS is less than or equal to the amount of the underlying obligation, 60 percent of the amount of the hedge can be recognised as covered. If the amount of the CDS is larger than that of the underlying obligation, then the amount of eligible hedge is capped at 60 percent of the amount of the underlying obligation.
- (vi) If the CDS specifies deliverable obligations that are different from the underlying obligation, the resultant asset mismatch shall be governed under paragraph 15(1)(x).
  - (vii) The CDS shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay.
- Definition of maturity – the maturity of the underlying exposure and the maturity of the hedge shall both be defined conservatively. The effective maturity of the underlying shall be gauged as the longest possible remaining time before the counterparty is scheduled to fulfill its obligation, taking into account any applicable grace period.*
- (viii) If the protection buyer's right/ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld.

- (ix) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the sole responsibility of the protection seller. The protection buyer shall have the right/ability to inform the protection seller of the occurrence of a credit event.
- (x) A mismatch between the underlying obligation and the reference obligation or deliverable obligation is permissible, if (a) the reference obligation or deliverable obligation ranks pari-passu with or is junior to the underlying obligation, and (b) the underlying obligation and reference obligation or deliverable obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross default or cross acceleration clauses are in place.
- (xi) A mismatch between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible if (a) the latter obligation ranks pari-passu with or is junior to the underlying obligation, and (b) the underlying obligation and reference obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross-default or cross acceleration clauses are in place.

## **(2) Treatment of exposures below materiality thresholds**

Materiality thresholds on payments below which no payment is made in the event of loss as per the CDS contract, are equivalent to retained first loss positions and shall be assigned risk weight of 667 percent ( $1/0.15 \times 100$  as minimum CRAR requirement for NBFCs is 15 percent) for capital adequacy purpose by the protection buyer.

## **(3) Prudential treatment post-credit event**

In case the credit event payment is not received within the period as stipulated in the CDS contract, the NBFC shall ignore the credit protection of the CDS and reckon the credit exposure on the underlying asset and maintain appropriate level of capital and provisions as warranted for the

exposure. On receipt of the credit event payment, (a) the underlying asset shall be removed from the books if it has been delivered to the protection seller; or (b) the book value of the underlying asset shall be reduced to the extent of credit event payment received if the credit event payment does not fully cover the book value of the underlying asset and appropriate provisions shall be maintained for the reduced value.

#### **(4) Capital Adequacy**

In terms of these Directions, risk weights for credit risk for corporate bonds held by NBFCs is 100 percent. A CDS contract creates a counterparty exposure on the protection seller on account of the credit event payment. In case of hedging of the cash position by CDS, the exposure shall be reckoned on the protection seller subject to the conditions mentioned in paragraph 15 (5) below. NBFCs shall calculate the counterparty credit risk charge for all bought CDS positions as the sum of the current mark-to-market value, (if positive and zero, if MTM is negative) and the potential future exposure.

#### **(5) Treatment of exposure to the protection seller**

i) Exposure to the underlying asset in respect of the hedged exposure shall be deemed to have been substituted by exposure to the protection seller, if the following conditions are satisfied:

(a) Operational requirements mentioned in paragraph 15 are satisfied

(b) There is no maturity mismatch between the underlying asset and the deliverable obligation. If this condition is not satisfied, then the amount of credit protection to be recognised shall be computed as indicated in paragraph 15 (5) (v) below. In all other cases the exposure shall be deemed to be on the underlying asset.

ii) Risk weights as applicable to the underlying assets shall be applied for the unprotected portion of the exposure. The amount of credit protection shall be adjusted if there are any mismatches between the underlying

asset/obligation and the deliverable asset/obligation with regard to asset or maturity. These are dealt with in detail in the following paragraphs.

**iii) Mismatches**

The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset/obligation and the deliverable asset/obligation with regard to asset or maturity.

(A) Asset mismatches: Asset mismatch will arise if the underlying asset is different from the deliverable obligation. Protection shall be reckoned as available to the NBFC only if the mismatched assets meet the requirements specified in paragraph 15(1)(x) above.

(B) Maturity mismatches: The NBFC shall be eligible to reckon the amount of protection if the maturity of the credit derivative contract were to be equal to the maturity of the underlying asset. If, however, the maturity of the CDS contract is less than the maturity of the underlying asset, then it shall be construed as a maturity mismatch. In case of maturity mismatch the amount of protection shall be determined in the following manner:

(a) If the residual maturity of the credit derivative product is less than three months no protection shall be recognized.

(b) If the residual maturity of the credit derivative contract is three months or more

protection proportional to the period for which it is available shall be recognised.

When there is a maturity mismatch the following adjustment shall be applied.  $Pa = P \times (t - .25) \div (T - .25)$

Where:  $Pa$  = value of the credit protection adjusted for maturity mismatch

$P$  = credit protection

$t$  = min (T, residual maturity of the credit protection arrangement) expressed in years

$T = \min(5, \text{residual maturity of the underlying exposure})$  expressed in years

Example: Suppose the underlying asset is a corporate bond of Face Value of ₹100 where the residual maturity is of 5 years and the residual maturity of the CDS is 4 years. The amount of credit protection is computed as under:

$$100 * \{(4-.25) \div (5-.25)\} = 100 * (3.75 \div 4.75) = 78.95$$

(c) Once the residual maturity of the CDS contract reaches three months, protection ceases to be recognised.

(iv) NBFCs as users shall adhere to all the criteria required for transferring the exposures fully to the protection seller in terms of paragraph 15(1) above on an ongoing basis so as to qualify for exposure relief on the underlying asset. In case any of these criteria are not met subsequently, the NBFC shall have to reckon the exposure on the underlying asset. Therefore, NBFCs shall restrict the total exposure to an obligor including that covered by way of CDS within an internal exposure ceiling considered appropriate by the Board of the NBFC in such a way that it shall not breach the single/group borrower exposure limit prescribed by the Reserve Bank. In case of the event of any breach in the single/group borrower exposure limit, the entire exposure in excess of the limit will be risk weighted at 667 percent. In order to ensure that consequent upon such a treatment, the NBFC shall not breach the minimum capital requirement prescribed by the Reserve Bank, it shall keep sufficient cushion in capital in case it assumes exposures in excess of normal exposure limit.

(v) No netting of positive and negative marked-to-market values of the contracts with the same counterparty shall be allowed for the purpose of complying with the exposure norms.

**(6) General Provisions Requirements**

For the CDS positions of NBFCs, they shall hold general provisions for gross positive marked-to-market values of the CDS contracts

**(7) Reporting Requirement:**

On a quarterly basis, NBFCs shall report “total exposure” in all cases where they have assumed exposures against borrowers in excess of the normal single/group exposure limits due to the credit protections obtained by them through CDS, guarantees or any other permitted instruments of credit risk transfer, to the Regional Office of Department of Supervision where they are registered.

- (8) NBFCs shall also disclose in their notes to accounts of balance sheet the details as specified under Reserve Bank of India (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) Directions, 2025.

## **Chapter-V - Legal Entity Identifier (LEI) for Borrowers**

16. The Legal Entity Identifier (LEI) code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide.
17. The LEI for the participants of the OTC derivatives market has since been implemented vide [circular RBI/2016-17/314 FMRD.FMID No.14/11.01.007/2-16-17 dated June 01, 2017](#) in a phased manner.
18. It is advised that NBFCs shall ensure that non-individual borrowers with aggregate exposure of ₹5 crore and above from banks (Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks, and Primary (Urban) Co-operative Banks) and Financial Institutions (All India Financial Institutions and NBFCs (including HFCs)) obtain LEI codes

***Explanation:*** 'Exposure' for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks / FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders shall ascertain the position of aggregate exposure based on information available either with them, or CRILC database or declaration obtained from the borrower

19. Borrowers who fail to obtain LEI codes from an authorised Local Operating Unit (LOU) shall not be sanctioned any new exposure nor shall they be granted renewal / enhancement of any existing exposure. However, Departments / Agencies of Central and State Governments (not Public Sector Undertakings registered under Companies Act or established as Corporation under the relevant statute) shall be exempted from this provision.

***Explanation:*** A government agency is an administrative set up of the government, responsible for certain area/s of activity, e.g., ISRO, BIS, DGCA, etc..

NBFCs shall encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

20. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.
21. The rules, procedure and documentation requirements maybe ascertained from [LEIIL](#).
22. After obtaining LEI code, NBFCs shall also ensure that borrowers renew the codes as per GLEIF guidelines.

## **Chapter-VI - Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable, and Intangible Assets in CERSAI**

23. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 25 of the Companies Act 1956 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).
24. It is to be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry will be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. It may be noted that under the provisions of Section 23 of the SARFAESI Act , particulars of any charge creating security interest over property is required to be filed with the Registry within 30 days from the date of creation.
25. The Government of India has issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:
  - (i) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.
  - (ii) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.
  - (iii) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, licence, franchise or any

other business or commercial right of similar nature.

- (iv) Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof by an agreement or instrument other than mortgage.

## **Chapter-VII – Repeal and other provisions**

### **A. Repeal and saving**

26. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Credit Risk Management as applicable to Non-Banking Financial Companies, stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines already repealed shall continue to remain repealed.
27. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

### **B. Application of other laws not barred**

28. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

### **C. Interpretations**

29. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

**Annex I****Loans to Directors, Senior Officers and relatives of Directors**

	(₹ crore)	
	<b>Current Year</b>	<b>Previous Year</b>
Directors and their relatives		
Entities associated with directors and their relatives		
Senior Officers and their relatives		