

Frequently Asked Questions (FAQs)

Master Directions on Fraud Risk Management in Regulated Entities (REs), 2024

[[Master Directions on Fraud Risk Management in REs were issued on July 15, 2024](#)]

Q.1 The Master Directions on Fraud Risk Management *inter alia* require Regulated Entities (REs) to constitute a Special Committee of the ‘Board for Monitoring and Follow-up of cases of Frauds’ (SCBMF) or a ‘Committee of the Executives’ (CoE), as the case may be. What should be the threshold amount of fraud for placing the cases before such Committee?

Ans: As mentioned under Chapter II of the Master Directions, the coverage and periodicity of reviews conducted by SBCMF / CoE shall be decided by the Board of the REs. Accordingly, the threshold amount of fraud cases to be placed before the SBCMF / CoE shall be decided by the Board of the REs, after duly taking into account the scale and complexity of their operations.

Q.2 Is discretion available to REs for reporting of incidents of frauds to the Law Enforcement Agencies (LEAs), especially in case of small value frauds? Or whether banks are mandatorily required to report small value frauds to police under Master Directions on Fraud?

Ans: Paragraph 5.1 of the Master Directions requires Regulated Entities (REs) to immediately report incidents of fraud to Law Enforcement Agencies (LEAs), subject to applicable laws. Under Section 33 of Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS), a person is not mandatorily required to report to LEAs information on commission of all offences, but only on those offences which are listed in that Section. REs are, however, advised to mandatorily report incidents of fraud involving an amount of ₹1 lakh or more to LEAs.

Q.3 Whether REs are required to comply with judgement of the Hon'ble Supreme Court dated March 27, 2023 i.e. whether the compliance to Principles of Natural Justice is required to be adhered to in all cases of frauds or only in cases of advance related frauds?

Ans: The requirement of ensuring compliance to the Principles of Natural Justice is applicable to all Persons / Entities and its Promoters / Whole-time and Executive Directors classified as fraud by the REs. In other words, this requirement is applicable in all cases of fraud classification which may have civil consequences (i.e. penal measures, caution listing) as observed in the Judgement of the Hon'ble Supreme Court dated March 27, 2023 (Civil Appeal No. 7300 of 2022 in the matter of State Bank of India & Ors. Vs. Rajesh Agarwal & Ors.).

Q.4 Whether REs are required to obtain the approval of Whole-time Director (WTD) for withdrawal of Fraud Monitoring Return (FMR), specifically, in cases where fraud classification of Persons / Entities etc. by the REs have been set aside by the Courts?

Ans: In cases where withdrawal of FMR / removal of name(s) of perpetrator(s) is necessitated due to Court directions, REs may arrange to withdraw FMR / remove name(s) of perpetrator(s) immediately. Such cases shall subsequently be placed before the official in the rank of WTD for information.

Q.5 Whether the reporting requirement of frauds perpetrated in the group entities of the NBFCs (including HFCs) is applicable to all Group companies?

Ans: The Master Directions require reporting of frauds perpetrated only in the Group entities (subsidiaries / affiliates / joint ventures etc.) belonging to the reporting NBFCs / HFCs. In other words, the reporting requirement is not applicable to the other entities in wider Group to which the reporting NBFC / HFC belongs, which may not be subsidiaries / affiliates / joint ventures etc. of the reporting NBFCs / HFCs.

Q.6 Whether filing / reporting of Monthly Certificate on Frauds, Monthly Central Fraud Registry (CFR) Certificate and Flash Report by banks shall continue?

Ans: In terms of revised Master Directions, banks are not required to submit such certificates / Flash Reports to RBI.