



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI /2012-13/25

DNBS (PD) CC No. 288 / 03.10.001 / 2012-13

July 2, 2012

To

All Non-Banking Financial Companies (NBFCs)

Dear Sir,

Master Circular – Corporate Governance

In order to have all current instructions in one place, the Reserve Bank of India has consolidated all the instructions issued on the topic as at end of June 30, 2012. It may be noted that the Master Circular consolidates and updates all the instructions contained in the notifications listed in the Appendix in so far they relate to the subject. The Master Circular has also been placed on the RBI web-site (<http://www.rbi.org.in>).

Yours sincerely

(C.R.Samyuktha)
Chief General Manager

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I. Guidelines on Corporate Governance

As it is evident, the need for good corporate governance has been gaining increased emphasis over the years. Globally, companies are adopting best corporate practices to increase the investors confidence as also that of other stakeholders. Corporate Governance is the key to protecting the interests of the stake-holders in the corporate sector. Its universal applicability has no exception to the Non-Banking Financial Companies (NBFCs) which too are essentially corporate entities. Listed NBFCs which are required to adhere to listing agreement and rules framed by SEBI on Corporate Governance are already required to comply with SEBI prescriptions on Corporate Governance.

In order to enable NBFCs to adopt best practices and greater transparency in their operations following guidelines are proposed for consideration of the Board of Directors of all Deposit taking NBFCs with deposit size of Rs 20 crore and above and all non-deposit taking NBFCs with asset size of Rs 100 crore and above (NBFC-ND-SI).

1. Constitution of Audit Committee

In terms of extant instructions, an NBFC having assets of Rs. 50 crore and above as per its last audited balance sheet is already required to constitute an Audit Committee, consisting of not less than three members of its Board of Directors, the instructions shall remain valid.

In addition, NBFC-D with deposit size of Rs 20 crore may also consider constituting an Audit Committee on similar lines.

2. Constitution of Nomination Committee

The importance of appointment of directors with 'fit and proper' credentials is well recognised in the financial sector. In terms of Section 45-IA (4) (c) of the RBI Act, 1934, while considering the application for grant of Certificate of Registration to undertake the business of non-banking financial institution it is necessary to ensure that the general

character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the interest of its present and future depositors. In view of the interest evinced by various entities in this segment, it would be desirable that NBFC-D with deposit size of Rs 20 crore and above and NBFC-ND-SI may form a Nomination Committee to ensure 'fit and proper' status of proposed/existing Directors.

3.Constitution of Risk Management Committee

The market risk for NBFCs with Public Deposit of Rs.20 crore and above or having an asset size of Rs.100 crore or above as on the date of last audited balance sheet is addressed by the Asset Liability Management Committee (ALCO) constituted to monitor the asset liability gap and strategize action to mitigate the risk associated. To manage the integrated risk, a risk management committee may be formed, in addition to the ALCO in case of the above category of NBFCs.

4.Disclosure and transparency

The following information should be put up by the NBFC to the Board of Directors at regular intervals as may be prescribed by the Board in this regard:

- progress made in putting in place a progressive risk management system, and risk management policy and strategy followed
- conformity with corporate governance standards viz. in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

5.Connected Lending

The Bank has received suggestions in the matter with reference to paragraph 2(vi) of the circular dated May 28, 2007 containing instructions on connected lending. The suggestions are being studied and the instructions contained in paragraph 2 (vi) of the said circular will become operational after final evaluation of the suggestions and modifications, if any considered necessary.

NBFCs shall frame their internal guidelines on corporate governance, enhancing the scope of the guidelines without sacrificing the spirit underlying the above guidelines and it shall be published on the company's web-site, if any, for the information of various stakeholders.

II. Rotation of partners of the statutory auditors audit firm - with public deposits/deposits of Rs 50 crore and above

The need for good corporate governance has been gaining increased emphasis over the years. Globally, Companies are adopting best corporate practices to increase the investors confidence as also that of other stakeholders. Scrutiny of the books of account conducted by auditors rotated periodically would add further value in strengthening corporate governance.

2. In this context, it would be desirable if NBFCs with public deposits / deposits of Rs 50 crore and above, stipulate rotation of partners of audit firms appointed for auditing the company. The partner/s of the Chartered Accountant firm conducting the audit could be rotated every three years so that same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC after an interval of three years, if the NBFC, so decides. Companies may incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Appendix

Sr. No.	Circular No.	Date
1.	<u>DNBS (PD).CC. No. 61 / 02.82 / 2005-06</u>	December 12, 2005
2.	<u>DNBS.PD/ CC 94 / 03.10.042 /2006-07</u>	May 8, 2007
3.	<u>DNBS.PD/ CC 104 / 03.10.042 /2007-08</u>	July 11, 2007