

## **Navigating NBFC Scale-Based Regulations: Key Insights from Mehta & Mehta Session**

Non-Banking Financial Companies (NBFCs) are at the forefront of India's evolving financial ecosystem. With RBI introducing **Scale-Based Regulations (SBR)**, the emphasis has shifted toward governance, compliance, and customer protection.

In a recent session hosted by **Mehta & Mehta**, experts and practitioners examined the wide-ranging impact of these regulations on outsourcing practices, cybersecurity, credit reporting, digital lending, Ind-AS compliance, project finance, and more. The session highlighted the regulatory intent of fostering **transparency, resilience, and sustainability** in NBFC operations.

### **Outsourcing and Related Parties**

Experts clarified that outsourcing to related parties is permitted, provided it is supported by Board or Audit Committee approval and well-defined service-level agreements (SLAs). Such agreements must outline scope of work, data protection, confidentiality, audit rights, and termination clauses. However, core and strategic functions such as credit appraisal and decision-making cannot be outsourced, and ultimate accountability always remains with the NBFC.

### **Cybersecurity and IT Governance**

With effect from April 2024, RBI's new IT and cybersecurity directions require NBFCs to adopt vendor risk assessments, data classification, encryption, and access controls in all third-party contracts. Institutions must implement business continuity and disaster recovery plans, conduct regular SaaS audits, and ensure that IT is treated as a critical function subject to ongoing monitoring and audit.

### **Digital Lending Framework**

Digital lending has been placed under stricter supervision, with NBFCs required to fully comply with the Fair Practice Code (FPC). Loan terms, charges, and processing fees must be transparently disclosed, recovery practices must remain ethical, and grievance redressal mechanisms must be robust. Importantly, NBFCs are held responsible for borrower outcomes even when loans are originated through digital platforms.

### **Credit Information Reporting**

RBI has tightened requirements for submissions to Credit Information Companies (CICs). NBFCs must now report borrower and guarantor data on a fortnightly basis instead of monthly. Regulators also monitor accuracy through a Data Quality Index (DQI), and penalties apply for delays in dispute resolution. This ensures that credit information remains complete, timely, and reliable for risk assessment.

### **Ind-AS and Financial Reporting**

Ind-AS standards are mandatory for listed NBFCs and those with net worth above ₹250 crore, extending also to their subsidiaries and associates. Under this regime, provisioning is based on

the Expected Credit Loss (ECL) model, often resulting in stricter provisioning compared to RBI norms. Processing fees must be amortized over the loan tenure, and fair value adjustments must be reflected transparently, aligning NBFC financials with global benchmarks.

### **Project Finance Directions**

From October 2025, project finance by NBFCs will be governed by a new framework. Repayment is capped at 85% of project life, with lenders required to maintain minimum exposures of 10% for loans up to ₹1,500 crore and 5% (or ₹150 crore) for larger loans. Delays in project commencement will attract incremental provisioning of 0.375% per quarter. The framework also emphasizes financial closure before sanction and mandates closer monitoring across design, construction, and operational phases.

### **Additional Compliance Areas**

Other important directions include mandatory filing of charges with CERSAI to prevent multiple loans on the same asset, compulsory disclosure of mortgagee details in housing finance advertisements, prohibition on NBFCs entering partnerships or LLPs, and reporting of any change in credit ratings to RBI within 15 days. Risk Management Committees are expected to provide meaningful guidance, with a focus on early warning signals and stress testing.

### **Expert Insights and Conclusion**

Panelists emphasized that compliance is no longer a checklist exercise but a means to build trust with regulators and customers. Company Secretaries have a strategic role in governance, particularly in structuring NCD issuances and engaging with rating agencies. RBI has moved towards real-time monitoring, analyzing returns and issuing targeted queries to NBFCs. Overall, the SBR framework represents RBI's intent to balance growth with governance, embedding transparency, borrower protection, and accountability into NBFC operations, thereby strengthening both compliance and long-term market confidence.

**To access the webinar recording and other resources, visit the YouTube channel:**

□ *"Decoding Corporate Laws with Mehta & Mehta"*