

FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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August 19, 2024

Shri Rajnish Kumar,
Chief General Manager,
Department of Supervision,
Reserve Bank of India
World Trade Centre, Centre I, Cuffe Parade,
Colaba, Mumbai-400 005

Sub: Comments on “Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFC) (Including Housing Finance Companies)” (MD-FRM)

Respected Sir,

At outset, we wish to place on record our appreciation for issuing MD-FRM on 15th July 2024 which will tackle the issues related to Fraud Risk in NBFCs in a better way. Our members have requested for clarification on a certain point provided below. We will be grateful if clarification on this can be provided:

Para	Regulation	Representation
6.2.3	Applicable NBFCs shall also report frauds perpetrated in their group entities ²⁹ to RBI separately ³⁰ , if such entities are not regulated / supervised by any financial sector regulatory / supervisory authority. However, in case of overseas financial group entity of Indian NBFC, the parent NBFC shall also report incidents of fraud to RBI. The	The said Paragraph mandates that group entities of an NBFC whether engaged in financial or non-finance services shall need to report incident of Fraud to RBI and shall also need to follow guidelines as prescribed in Para 2.1 of MD-FRM. In this regard, we submit as below:

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<p>group entities will have to comply with the principles of natural justice before declaration of fraud³¹</p> <p><i>29 – Group entities mean both the domestic and overseas subsidiaries, affiliates, joint ventures etc. as defined under applicable accounting standards, whether engaged in financial and non-financial services.</i></p>	<p>The definition of group entities is very broad and will include almost all companies which are directly or indirectly related to a Regulated Entity.</p> <p>While this may not impact stand-alone REs, but for NBFCs which are part of Conglomerates, this may very well include entities which are not related in any manner with RE or its business operations but are under same group.</p> <p>Further, many of these group entities may be regulated by some other regulator or could be listed where information such as those relating to fraud may be deemed as “Un-published Price Sensitive Information” thereby restricting such companies to share them with any other entity including other group companies or some other regulator.</p> <p>We request that definition for group be kept same as one which was released under FAQ for “Guidelines for Appointment of</p>
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		<p><i>Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)” which reads as under:</i></p> <p><i>“The Group Entities refer to the RBI Regulated Entities in the Group...”</i></p> <p>It may not be out of place to mention that formation of Group Risk Management Committee also uses the above concept of “Group”.</p>
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We look forward for consideration of our submissions and shall be happy to provide any other information / clarification on the above said concerns.

Thanking you,

Yours Faithfully,

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
9820035553