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PUBLIC CONSULTATION SUBMISSION

Comments and Suggestions on the Draft Reserve Bank of India (Governance) Amendment Directions, 2026

Commercial Banks | Small Finance Banks | Payments Banks | Local Area Banks | UCBs | RCBs | NBFCs

Prefatory Note: *LexMentor Legal Research and Policy Advisory is a legal research and policy engagement platform committed to advancing evidence-based scholarship on banking law, financial regulation, constitutional governance, and digital finance. We welcome the Reserve Bank of India's initiative to invite public comments on the Draft Governance Amendment Directions, 2026, issued pursuant to the Statement on Developmental and Regulatory Policies dated April 8, 2026. We commend the Reserve Bank for its principled, consultative approach to regulatory reform and offer the following submissions constructively, in support of the RBI's objective of strengthening board governance and risk oversight across regulated entities.*

I. Background and Regulatory Context

The Reserve Bank of India has, through its Statement on Developmental and Regulatory Policies dated April 8, 2026, announced a comprehensive review and rationalisation of governance directions applicable to its regulated entities. The Draft Reserve Bank of India (Governance) Amendment Directions, 2026, issued simultaneously for Commercial Banks, Small Finance Banks, Payments Banks, Local Area Banks, Urban Co-operative Banks, Rural Co-operative Banks, and Non-Banking Financial Companies, represent the most significant overhaul of board governance standards in India's banking sector in recent years.¹

The central objective of these Directions -- to replace the existing prescriptive rule-based framework with a principle-based governance model that enables bank boards to focus their deliberation on strategy and risk governance rather than routine operational approvals -- is well-considered, timely, and consistent with global best practices in financial regulation. LexMentor endorses this objective

and commends the Reserve Bank for its consultative approach in inviting public feedback prior to finalisation.²

The following submissions address cross-cutting themes applicable across all seven sets of directions, followed by entity-specific observations. All suggestions are offered with a view to strengthening the governance framework while preserving its operational flexibility and legal precision.

II. Cross-Cutting Observations Applicable to All Seven Sets of Directions

Observation -- Principle-Based Framework and Definitional Precision: The shift from prescriptive thematic guidance to principle-based oversight is a commendable step toward more mature corporate governance. However, the effectiveness of this transition depends significantly on the precision with which key principles are defined. Terms such as 'material amendments', 'sufficient information', and 'strategic matters' appear in the draft directions without accompanying definitions or illustrative guidance, which may create inconsistency in implementation across entities of varying sizes and capacities.³

Suggestions:

- The Reserve Bank may consider issuing a Guidance Note alongside the final directions providing illustrative examples of 'material amendments' to policies, 'strategic matters' warranting board-level engagement, and the 'nature, level of detail and frequency of information' required from management, to ensure consistent and predictable implementation.
- A phased implementation timeline distinguishing between large banks and smaller entities such as Local Area Banks, Payments Banks, and smaller Urban Co-operative Banks would allow for capacity building before full compliance is required. A September 1, 2026 uniform implementation date may be operationally challenging for smaller institutions.
- The principle that 'ultimate responsibility remains with the Board' must be accompanied by corresponding guidance on director liability, to ensure that independent directors are not exposed to disproportionate legal risk for delegated functions.

Observation -- Delegation Framework and Board Committee Architecture: The revised directions permit boards to delegate the review of policies to board committees while retaining approval authority for material amendments. This is a sound structural reform. However, the

Appendices I and II to the Commercial Banks directions list 19 board-level policy matters and 38 non-delegable or conditionally delegable operational matters, creating an extensive compliance matrix that requires careful harmonisation.⁴

Suggestions:

- The Appendices should be reviewed to ensure that the classification of matters as 'non-delegable' is justified by clear prudential or legal reasoning. A brief explanatory note against each non-delegable matter would aid boards in understanding the regulatory intent and reduce compliance uncertainty.
- A sunset review clause should be built into the directions, requiring the Reserve Bank to review the Appendices every two years and update them in light of technological changes, new products, and emerging risk categories.
- The directions should clarify whether delegation of a matter to a Board Committee requires a formal board resolution each time, or whether a standing delegation policy approved once by the board would suffice.

III. Commercial Banks -- Governance Amendment Directions, 2026

Observation -- Board Oversight of Risk Management (New Paragraph 11A): The insertion of Paragraph 11A, requiring boards to exercise oversight over risk management systems, related entity exposures, and corporate governance standards, codifies best practice and is a welcome addition. The requirement that boards monitor exposure to related entities including subsidiaries is particularly significant in the context of concerns regarding the governance of large banking conglomerates.⁵

Suggestions:

- The term 'related entities' in Paragraph 11A(ii) should be defined by cross-reference to the definition in the Reserve Bank of India (Commercial Banks -- Credit Risk Management) Directions, 2025, to prevent interpretive inconsistency.
- Board oversight of cyber security under the Risk Management policy framework should be elevated to include a mandatory annual board-level cyber resilience review, consistent with the Sustained Assurance on Cyber Resilience Framework, 2017.

- The requirement for boards to oversee 'conformity with corporate governance standards' in Paragraph 11A(iii) should include a requirement to review the independence and effectiveness of independent directors at least annually, with findings placed before the Nomination and Remuneration Committee.

Observation -- Chairperson's Role in Agenda-Setting (New Paragraph 19B(iii)): The assignment of primary responsibility for agenda-setting to the Chairperson of the Board is a sound governance principle. However, this provision must be read carefully in the context of public sector banks, where the Chairperson is a government-appointed official, to ensure the reform genuinely promotes independent board deliberation rather than concentrating agenda control in a single government-nominated functionary.

Suggestions:

- For public sector banks, the agenda-setting responsibility of the Chairperson under Paragraph 19B(iii) should be balanced by a right of any three independent directors to collectively request inclusion of a matter on the board agenda.
- The directions should require that a minimum proportion of board meeting time be dedicated to strategy and risk governance, with the Chairperson responsible for ensuring compliance and reporting on time allocation to the Nomination and Remuneration Committee annually.

IV. Small Finance Banks, Payments Banks, and Local Area Banks

Observation -- Proportionality and Capacity Constraints: The draft directions for Small Finance Banks, Payments Banks, and Local Area Banks broadly replicate the commercial bank governance framework with limited modifications. Given the significantly smaller scale, narrower mandates, and more limited institutional capacity of these entities, a more differentiated approach to governance requirements would be both appropriate and consistent with the principle of proportionate regulation.⁶

Suggestions:

- The Reserve Bank should prescribe a simplified version of the policy Appendices for Small Finance Banks, Payments Banks, and Local Area Banks, with a reduced list of board-mandated policies calibrated to the nature of their business, risk profile, and institutional capacity.
- Payments Banks, which are restricted to accepting deposits up to Rs. 2 lakh and cannot extend credit, have a materially different risk profile from commercial banks. Their governance directions should focus board oversight on payment systems resilience, customer data protection, and technology governance rather than credit risk and capital adequacy.
- Local Area Banks should be permitted to constitute combined Board Committees to discharge multiple oversight functions, given the practical constraints on maintaining fully staffed separate committees for each policy domain.
- Small Finance Banks with assets below a prescribed threshold should be afforded a 12-month implementation period from the effective date to build the internal systems and governance infrastructure required for full compliance.

V. Urban Co-operative Banks and Rural Co-operative Banks

Observation -- Dual Regulatory Structure and Democratic Character: Co-operative banks in India are subject to a dual regulatory framework: they are governed by state co-operative societies legislation and by the Reserve Bank of India under the Banking Regulation Act, 1949 (as amended in 2020). The governance directions for Urban Co-operative Banks and Rural Co-operative Banks must be carefully calibrated to respect the democratic, member-owned character of co-operative institutions while ensuring that their boards discharge adequate risk oversight responsibilities.⁷

Suggestions:

- The governance directions should expressly acknowledge the primacy of the general body of members as the supreme governance authority in a co-operative institution, and ensure that board governance requirements are designed to enhance accountability to members rather than displace member democracy.
- A mandatory financial literacy and governance training programme for elected board members of Urban Co-operative Banks and Rural Co-operative Banks should be prescribed, with the cost borne by NABARD Training Institutions or RBI-affiliated training bodies.
- A minimum quorum of at least 50% of independent directors should be prescribed for any board meeting at which risk management, audit, or compliance matters are placed for approval.

- The cooling-off period for directors of Urban Co-operative Banks seeking re-election after completing two consecutive terms should be expressly stated in the directions, and should extend to prevent the appointment of former directors as professional directors or management consultants to the same bank within the cooling-off period.⁸

VI. Non-Banking Financial Companies

Observation -- Scale-Based Regulation and Risk Differentiation: The Reserve Bank's scale-based regulatory framework for Non-Banking Financial Companies, which classifies them into Base Layer, Middle Layer, Upper Layer, and Top Layer entities, provides an appropriate foundation for differentiated governance requirements. The governance amendment directions for NBFCs must leverage this existing framework to ensure that compliance obligations are proportionate to systemic importance and risk profile.⁹

Suggestions:

- The governance obligations in the draft directions, particularly with respect to mandatory Board Committee structures, should be calibrated explicitly to the scale-based classification. Base Layer entities should be subject to a lighter framework, while Upper Layer and Top Layer entities should be subject to requirements equivalent to those applicable to Small Finance Banks.
- The directions should prescribe specific provisions for fintech-NBFCs and digital lending entities, including mandatory board-level oversight of algorithmic credit scoring systems, data governance policies, and consumer protection compliance.
- The concentration risk management requirements for NBFCs strengthened by the January 2026 amendment directions should be integrated into the governance directions by requiring boards to receive a quarterly concentration risk dashboard, with clear escalation protocols for breaches of prescribed limits.¹⁰
- NBFCs placed under the Prompt Corrective Action framework by the Reserve Bank should be subject to enhanced governance oversight, including mandatory monthly board meetings and a requirement to place the PCA compliance report before the board at each meeting.

VII. Board Information Architecture and Technology Governance

Observation: The draft directions introduce an important principle in new Paragraph 19B(iv), requiring boards to clearly define the nature, level of detail, and frequency of information required from management. This addresses the longstanding problem of information asymmetry between boards and management in Indian banks. However, the provision is stated as a principle only, without any minimum standard for the frequency or content of management information reporting to boards.

Suggestions:

- The Reserve Bank should prescribe minimum standards for board-level MIS reporting, including: a monthly risk dashboard covering credit, market, liquidity, and operational risk metrics; a quarterly regulatory compliance report; and an annual strategy review document.
- Board meeting agendas and supporting materials should be circulated at least seven working days before the meeting for all matters requiring approval, and three working days for information items.
- The directions should require boards to constitute a Technology and Digital Banking Committee, or vest equivalent responsibilities in the Risk Management Committee, with a specific mandate to review technology risk, cybersecurity, and digital product governance at least quarterly.

VIII. Climate Risk Governance and ESG Oversight

Observation: The draft directions include Green Deposits and Climate Finance as a board-level policy matter in the appendices to the Commercial Banks directions. However, the directions do not contain any overarching requirement for boards to exercise oversight over climate-related financial risk as part of their risk management responsibilities. This gap is significant given the Reserve Bank's own disclosure framework on climate risk and the increasing exposure of Indian banks to climate-related credit and liquidity risks.

Suggestions:

- The Risk Management policy oversight obligations should expressly include climate-related financial risk as a category requiring board-level policy approval and periodic review, consistent with the Reserve Bank of India (Commercial Banks -- Climate Finance and Management of Climate Change Risks) Directions, 2025.

- For Small Finance Banks and Urban Co-operative Banks operating in geographically concentrated areas with high climate vulnerability, the directions should require annual board-level review of climate-related exposure and contingency planning.
- A mandatory ESG disclosure in the board's annual report to the Reserve Bank -- covering the board's assessment of environmental, social, and governance risks -- should be introduced for Upper Layer and Top Layer NBFC entities, in line with SEBI's Business Responsibility and Sustainability Reporting framework.

IX. Provision-Specific Drafting Suggestions

The following provision-specific drafting refinements are respectfully suggested:

| Provision | Observation | Suggested Refinement |
|---|---|--|
| Para 11A(ii) Commercial Banks | 'Related entities' is not defined, creating scope for inconsistency in determining what exposures require board-level oversight. | Define 'related entities' by cross-reference to the RBI (Commercial Banks -- Credit Risk Management) Directions, 2025. |
| Para 19B(iii) All Banks | Assigning sole agenda-setting responsibility to the Chairperson may limit independent director access to the board agenda, particularly in public sector banks. | Provide a right for three or more independent directors to jointly request inclusion of any governance or risk matter on the board agenda. |
| Para 19B(iv) All Banks | No minimum standard for the frequency or content of management information reporting to boards is prescribed. | Prescribe minimum MIS standards: monthly risk dashboard, quarterly compliance report, and annual strategy review document. |
| Appendix I, Item 3 Commercial Banks | Climate-related financial risk is absent from the risk management policy oversight framework. | Insert climate-related financial risk as a board-level policy matter within the Risk Management Policy category. |
| SFB / LAB / Payments Bank Directions | A uniform September 1, 2026 implementation date does not account for the capacity constraints of smaller entities. | Allow a 12-month additional transition period for entities below a prescribed asset threshold. |
| UCB / RCB Directions | No provision for governance training for elected board members, many of whom lack formal financial expertise. | Mandate biennial governance and financial literacy training for all elected board members of Urban and Rural Co-operative Banks. |

X. Conclusion

LexMentor commends the Reserve Bank of India for undertaking this comprehensive rationalisation of board governance standards across regulated entities. The shift to a principle-based framework, the consolidation of board-mandated matters into structured appendices, and the explicit recognition of the board's role in strategy and risk governance collectively represent a meaningful step toward aligning India's banking governance framework with global best practice.

The suggestions set out in this submission are offered in a constructive spirit, with a view to ensuring that the final directions are proportionate, operationally workable, and legally precise across the diverse range of regulated entities to which they apply. LexMentor remains available for any further engagement, clarification, or participation in any consultative workshop that the Reserve Bank may organise in connection with these directions.

Respectfully submitted,

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References

1. Reserve Bank of India, *Statement on Developmental and Regulatory Policies, April 8, 2026, Press Release 2026-2027/47. The RBI simultaneously released four sets of draft governance amendment directions for commercial banks, SFBs, Payments Banks, and LABs, with a common consultation deadline of May 7, 2026.*
2. TaxGuru, 'RBI invites comments on Draft Reserve Bank of India (Governance) Amendment Directions, 2026' (April 8, 2026). Available at: taxguru.in.
3. Moneylife, 'RBI's Draft Bank Governance Changes Seek Stronger Board Control, Fewer Routine Approvals' (April 9, 2026). Available at: moneylife.in.
4. Draft Reserve Bank of India (Commercial Banks -- Governance) Amendment Directions, 2026, Appendices I and II (listing 19 policy matters and 38 non-delegable or conditionally delegable operational matters for board oversight).
5. Taxmann, 'RBI Draft Governance Directions 2026 Open for Comments' (April 9, 2026). Available at: taxmann.com.
6. AK and Partners, 'Banking and Finance Digest, April 13, 2026'. Available at: akandpartners.in.
7. Banking Regulation (Amendment) Act, 2020, which extended the Reserve Bank's supervisory powers to co-operative banks (other than Primary Agricultural Credit Societies). The dual regulatory structure creates unique governance challenges that the directions must carefully address.
8. Draft RBI (Urban Co-operative Banks -- Undertaking of Financial Services) Amendment Directions, 2026; see also Draft Circular on Cooling Period for Directors of UCBS (February 2026).
9. RBI Scale-Based Regulatory Framework for NBFCs, as notified in October 2021 and operationalised from October 1, 2022.

10. Reserve Bank of India (Non-Banking Financial Companies -- Concentration Risk Management) Second Amendment Directions, 2026 (notified January 2026); see Taxguru, 'RBI (Non-Banking Financial Companies -- Credit Risk Management) Amendment Directions, 2026' (January 4, 2026).

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