



भारतीय रिज़र्व बैंक
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April 29, 2022

All Non-Banking Financial Companies

Madam/Sir,

Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs

As you are aware, a revised Scale Based Regulatory (SBR) framework for NBFCs was put in place vide [circular DOR.CRE.REC.No.60/03.10.001/2021-22 October 22, 2021](#). In terms of para 3.2.3 (h) of the said circular, in order to address issues arising out of excessive risk taking caused by misaligned compensation packages, NBFCs are required to put in place a Board approved compensation policy. The policy shall at the minimum include, (a) constitution of a Remuneration Committee, (b) principles for fixed/ variable pay structures, and (c) malus/ clawback provisions. Further, in terms of para 3.2.3 (i) it was also decided that the Board of NBFCs should delineate the role of various committees, including Nomination and Remuneration Committee (NRC). It was envisaged that detailed circulars will be issued in due course by the Reserve Bank. Accordingly, these guidelines have now been framed and furnished in [Annex](#).

2. The guidelines are intended only for providing broad guidance to NBFCs and their NRCs in formulating their compensation policy. While formulating the compensation policy, it has to be ensured that all statutory mandates and the rules and directions issued under them are fully complied with.

3. These guidelines will be applicable for fixing the compensation policy of Key Managerial Personnel¹ and members of senior management² of all Non-Banking Financial Companies under SBR framework, except those categorised under 'Base Layer'³ and Government owned NBFCs.

4. These guidelines shall come into effect from April 01, 2023.

Yours faithfully

(Scenta Joy)
Chief General Manager

¹ KMPs: As defined in Section 2 (51) of Companies Act, 2013, as amended from time to time.

² 'Senior Management' are the same as defined in 'Explanation' to Section 178 of the Companies Act, 2013.

³ Base Layer – as defined in [RBI Circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#) on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs, as amended from time to time.

Annex

Guidelines on Compensation of Key Managerial Personnel and Senior Management in NBFCs: Minimum Scope and coverage

1. Nomination and Remuneration Committee (NRC)

The Boards of all applicable NBFCs shall constitute a Nomination and Remuneration Committee (NRC). The NRC shall have the constitution, powers, functions and duties as laid down in section 178 of the Companies Act, 2013. The NRC, *inter alia*, shall also have the mandate to oversee the framing, review and implementation of compensation policy of the company which should have the approval of the board. The NRC may work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks. Further, the NRC may ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on Internal Capital Adequacy Assessment Process (ICAAP). NRC may also ensure 'fit and proper' status of proposed/existing directors and that there is no conflict of interest in appointment of directors on Board of the company, KMPs and senior management.

2. Principles for compensation

2.1 Components and risk alignment: The compensation of Key Managerial Personnel (KMPs) and senior management needs to be reasonable, recognising all relevant factors including adherence to statutory requirements and industry practices. The compensation packages may comprise of fixed and variable pay components aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks, the compensation outcomes are symmetric with risk outcomes, compensation pay-outs are sensitive to the time horizon of the risks, and the mix of cash, equity and other forms of compensation are consistent with risk alignment.

2.2 Composition of Fixed Pay: All the fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, may be treated as part of fixed pay. All perquisites that are reimbursable may also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. Monetary

equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.) may also be part of fixed pay.

2.3 Principles for Variable Pay

2.3.1 Composition of Variable Pay: The variable pay may be in the form of share-linked instruments, or a mix of cash and share-linked instruments. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.

2.3.2 Proportion: The proportion of variable pay in total compensation⁴ needs to be commensurate with the role and prudent risk taking profile of KMPs/ senior management. At higher levels of responsibility, the proportion of variable pay needs to be higher. There should be proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments. The variable pay should be truly and effectively variable and can be reduced to zero based on performance at an individual, business-unit and company-wide level. In order to do so, performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

2.3.3 Deferral of variable pay: Not all the variable pay awarded after performance assessment may be paid immediately. Certain portion of variable pay, as decided by the Board of the company, may be deferred to time horizon of the risks. The portion of deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Deferral period for such an arrangement may be decided by the Board of the company.

2.3.4 Control and assurance function personnel: KMPs and senior management engaged in financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the company. Accordingly, such personnel may have higher proportion of fixed compensation. However, a reasonable proportion of compensation may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.

⁴ Total compensation includes fixed and variable pay

3. Guaranteed bonus

Guaranteed bonus may not be paid to KMPs and senior management. However, in the context of new hiring joining/sign-on bonus could be considered. Such bonus will neither be considered part of fixed pay nor of variable pay.

4. Malus / Clawback

The deferred compensation may be subject to malus⁵/clawback⁶ arrangements in the event of subdued or negative financial performance of the company and/or the relevant line of business or employee misconduct in any year. A representative set of situations may be identified by the NBFC, which require them to invoke the malus and clawback clauses that may be applicable on entire variable pay. While setting criteria for the application of malus and clawback, NBFCs may also specify a period during which malus and/or clawback can be applied, covering at least the deferral and retention periods⁷.

⁵ A **malus** arrangement permits the NBFC to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.

⁶ A **clawback** is a contractual agreement between the employee and the NBFC in which the employee agrees to return previously paid or vested remuneration to the NBFC under certain circumstances.

⁷ **Retention period**: A period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.