



CIRCULAR

F. No 172/ IFSCA/Finance Company Regulations/2021-22/9

August 09, 2021

**To,
All Finance Companies' in the International Financial Services Centre (IFSC)**

Subject: Guidelines on Corporate Governance and Disclosure Requirements for a Finance Company

Reference is drawn to the International Financial Services Centres Authority (Finance Company) Regulations, 2021 (hereinafter referred to as 'Regulations'), notified in the official gazette on March 25, 2021.

2. As contemplated under sub-regulation (1) of regulation 8 of the Regulations, the guidelines on Corporate Governance and Disclosure Requirements specified in this Circular aim to ensure accountability, transparency and sustainability for the Finance Company in order to foster investor confidence and achieve long term sustainable business goals. Every Finance Company shall formulate a framework on the Corporate Governance and Disclosure Requirements which shall be consistent with the letter and spirit of the guidelines set out in this Circular. These Guidelines shall be in addition to the Corporate Governance and Disclosure Requirements mandated under the Companies Act, 2013.

3. Applicability

3.1 The generic guidelines as contained in **Part I** of this Circular shall be applicable to every Finance Company registered with the International Financial Services Centres Authority (hereinafter referred to as 'Authority') under regulation 3 of the Regulations.

3.2 The detailed guidelines as contained in **Part II** of this Circular shall be applicable to a Finance Company registered with the Authority under regulation 3 of the Regulations and intending to undertake activities as mentioned at Sr. No. 5 and 6 of the Schedule therein, viz:

- (i) Undertaking one or more core activities with or without non-core activities, and;
- (ii) Undertaking specialized activities with or without core or non-core activities.



Part I **Generic Guidelines**

4. Corporate governance framework and disclosure

4.1 Every Finance Company registered with the Authority shall develop and implement a Board approved framework on Corporate Governance and Disclosure Requirements as relevant to its business operations which may be guided by the Guidelines specified in Part II of this Circular.

4.2 Every Finance Company shall publish the framework on Corporate Governance and Disclosure Requirements as per the disclosures mandated under the Companies Act, 2013, on its website, wherever available and/or in their Annual Report.

5. Fit and Proper Criteria

5.1 The Finance Company shall establish effective systems and controls to ensure that all the members of its Board meet the 'fit and proper' criteria and are eligible to be a member of its Board. A Finance Company must carry out due diligence of its Board members, both at the time of their appointment and at reasonably regular frequency during their term on the Board. The Finance Company shall, *inter-alia*, ensure:

(i) To undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria as specified by the Authority from time to time. It shall obtain necessary information and declaration from the proposed / existing director (s) for this purpose as per the format given in the Information on Management¹, on an annual basis.

(ii) To have a Board approved mechanism to scrutinize the results of the due diligence process, information and declarations given by the proposed/existing director (s) and accordingly decide on their on-boarding.

(iii) To obtain a declaration on an annual basis, from each and every member of its Board giving details of the material changes, if any, in the information provided earlier. Declaration shall also be required in case there is no material change in the information provided earlier. The declaration as obtained by the Finance Company, shall be certified

¹ Annex II of the form for registration of Finance Company/Unit, available on website of the Authority at <https://www.ifsca.gov.in/Downloadfile/Index>



by the auditor of the Finance Company for onward submission to the Authority not later than 30 days from the end of the financial year.

Part II

Detailed Guidelines

6. Board of Directors

- (i) The Board of Directors of a Finance Company shall be of an appropriate size based on the scope and nature of operations of its business.
- (ii) The Board of Directors shall possess core competencies such as accounting, finance, law, business or management experience, industry knowledge, strategic planning experience and customer based experience or knowledge.
- (iii) There shall be director's training on a regular basis to ensure that the members of the Board are kept up to date on the relevant field.
- (iv) The Finance Company shall obtain a duly signed deed of covenants (which shall deal with, but not be limited to the points mentioned below) whereby:
 - (a) Every director shall:
 - acknowledge that his/her appointment as the director on the Board is subject to the applicable laws, rules, regulations and Articles of Association and that he/she shall act only within the powers as laid down by the same.
 - undertake to exercise the powers vested in him/her in good faith and in the interest of the Finance Company.
 - disclose by general notice to the Board, his/her directorships, memberships or any interest in any form, in other corporate bodies.
 - acquire proper understanding of the business of the Finance Company and perform his/her duties with proper care, diligence and skills, based on his/her knowledge and experience.
 - exercise independent judgement in discharging his/ her duties and not seek to influence any decision of the Board for any consideration other than the interest of the Finance Company, shall express his/her views and opinions at the Board meetings without any fear or favor, shall not evade responsibility in any form and shall not make improper use of information disclosed to him/her.
 - assist the Board in exercising adequate oversight on the business and operations of the Finance Company, particularly for ensuring compliance with all applicable laws, rules and regulations.



- shall also commit to inform the Authority, on becoming aware of a real or potential breach of any applicable laws, rules or regulations by the Finance Company.

(b) The deed of covenant shall include that the Finance Company has apprised the directors about the relevant control systems and procedures, voting rights at Board meetings, remuneration policy, insider dealing restrictions, appointment of senior executives and their authority, deliberations of the Committees of the Board and all other information which is reasonably required for them to carry out their functions and duties, effectively.

7. Compliance Officer

The Finance Company shall appoint a Compliance Officer who shall be a member of the senior management with direct reporting to the Board. The Compliance Officer shall be responsible for implementing/operationalizing the policies and procedures approved by the Board and shall monitor adherence to all applicable laws, rules and regulations including these Guidelines as well as all internal policies and procedures.

8. Committees of the Board

Depending on the nature, scale and complexity of its business operations, the Board may constitute committees which may include audit committee, nomination and remuneration committee, risk management committee, stakeholder relationship committee or any other committee as may be mandated under the Companies Act, 2013, and by the Authority from time to time.

9. Related Party Transactions

The Finance Company shall formulate a Board approved policy which addresses all aspects of related party transactions. The same shall be reviewed by the Board of the Finance Company from time to time.

10. Disclosure and Transparency

Besides ensuring disclosures under the Companies Act, 2013 and these Guidelines, the Finance Company shall ensure that the information provided to stakeholders, as the case may be, is timely, accurate, relevant and is not misleading.

10.1 Information to be placed before Board of Directors

The Finance Company shall ensure to place before the Board at least the following information:

- (i) Annual operating plans and budgets, capital budgets and related updates.
- (ii) Quarterly results of the Finance Company.



- (iii) Minutes of meetings of the Board constituted Committees.
- (iv) A statement on the change of directors, if any, and a declaration confirming the compliance with the 'fit and proper' criteria about them.
- (v) Any materially adverse event which could affect the Finance Company, its property or operations.
- (vi) Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property and about any other transaction which is carried out beyond the normal course of business of the Finance Company.
- (vii) Conformity with Corporate Governance and Disclosure Requirements framework.
- (viii) All material breaches of internal policies, norms, risk limits and any other important information of the like nature.

10.2 Disclosures to be made on the website of the Finance Company

The Finance Company shall disseminate the requisite information on its website, wherever available and/or in their Annual Report, which shall include the following:

- (i) Basic information about the Finance Company and about its group;
- (ii) The Annual Report of the Finance Company;
- (iii) Corporate Governance report in conformity with the provisions of the Companies Act, 2013 and these Guidelines; and
- (iv) Other significant information, if any;

10.3 Disclosures to be made in the Annual Financial Statements (AFS)

In addition to the disclosure required under the Companies Act, 2013, a Finance Company shall also include the following in its Annual Financial Statement:

- (i) Components of owned funds and other related information;
- (ii) Details on the off-balance sheet exposures, if any;
- (iii) Its Asset Liability profile;
- (iv) Extent of financing by parent company;
- (v) Business ratios including Return on Equity (RoE) and Return on Assets (RoA);
- (vi) Concentration of Non-Performing Assets (NPAs) including total exposure to top five NPAs;
- (vii) Disclosures on provisioning in the Balance Sheet;
- (viii) Details on the registration/license/ authorization, by whatever name called, obtained from any financial sector regulators;



(ix) Penalties or fine imposed by any statutory authority/ financial sector regulators including strictures or directions on the basis of inspection reports or other adverse findings against it.

11. Every Finance Company is directed to ensure compliance with these Guidelines.
12. This Circular is issued in exercise of powers conferred by section 12 of the International Financial Services Centres Authority Act, 2019 to develop and regulate the financial products, financial services and financial institutions in the International Financial Services Centres.
13. A copy of this Circular is available on the website of the Authority at www.ifsc.gov.in/circular.

Yours faithfully,

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