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CONSEQUENT OR SUBSEQUENT?

The Banking Regulator wants Boards that focus on strategy and risk. The Securities Market Regulator wants more diligent Directors. The stakeholders wait with bated breath.

“The ultimate responsibility for the bank’s performance, conduct and control rests with the Board”, says the Reserve Bank of India (RBI). What is new one might ask.

The draft of RBI’s Amendment Directions 2026, relating to commercial banks (somewhat oddly titled the draft RBI Amendment Directions, 2026) was issued on April 8, 2026, for public consultations. The sentence in the preceding paragraph is the first of the 5 key principles for determining the matters to be placed before the Board, in addition to the matters specified in Appendix 1 and Appendix 2 of the draft. The first principle, focusing on the ultimate responsibility resting with the Board, goes on to state that some matters may be delegated to the Board committees/ sub-committees/ senior management, along with reporting requirements, as may be necessary. Delegation of the powers and functions of the Board to a Board committee is understandable, and is par for the course. However, delegating the functions/ responsibilities of the Board to a sub-committee or to senior management seems inappropriate. Only Board committees should ordinarily be the delegates of the Board. As for sub-committees, it is not understood to which entities the reference is because committees of the Board are Board committees, and not sub-committees, as often erroneously mentioned by senior bank functionaries.

The second principle states that the matters reserved for the Board’s approval or to be brought to its notice for information or reporting should be clearly articulated. It goes on to state that the role and responsibilities of the Board under various statutes or regulations, **may** also be taken into account in determining such matters. If there are responsibilities arising out of statutes or regulations, it is a non-negotiable requirement that the Board deals with such matters. The words “may also be taken into account” gives the impression that even in regard to statutory or regulatory prescriptions, the Board has a choice.

The third principle states that the Chairperson of the Board shall have the primary responsibility for setting the agenda of the meeting. The Chair of the Board is *primus inter pares*, and is not a superior authority, placed hierarchically above the rest of the Board members. Further, considering that the Board as a collective entity is at the apex of decision-making, the agenda for Board meetings should be owned by the Board. It is necessary for managements to understand that setting an agenda **for** the Board amounts to taking the Board for granted. The agenda should be set **with** the Board.

The fourth principle states that the Board shall ensure that it receives sufficient information from the management to discharge its role effectively. It goes on to state that the Board shall clearly define the nature, level of detail and frequency of information required from the management. Given the number and variety of agenda items, some of which could not have been anticipated, it is inconceivable how a Board can, in advance, clearly define the nature, level of detail and frequency of information. What is important is that the Board ensures that the information received is adequate and timely, to facilitate decision-making.

The fifth principle states that the Board shall periodically review the matters to be placed before it, as well as the matters delegated to the Board committees/ sub-committees/ senior management. The review shall also include the timelines for circulation of agenda items, adequacy of information captured in the agenda, and the time allotted for important matters. The timelines for circulation of agenda items have been laid down in the Secretarial Standards, which forms a part of the Companies Act, 2013. There is no scope for ambiguity with regard to timelines.

At this stage, it is useful to look at the reasons that are stated to have prompted the draft amendment directions. Paragraph 1 of the draft dated April 8, 2026 says that this is a result of a comprehensive review and rationalisation of instructions issued by RBI from time to time, and is “an endeavour to enable Boards to utilise their time effectively, and to facilitate a more focused and qualitative engagement on strategy and risk governance”. Is there an admission residing in this statement that an overly prescriptive regime, leading to a plethora of instructions, has, in the past, deflected bank Boards from spending adequate time on strategy and risk management?

The statement on developmental and regulatory policies includes *inter alia* review of matters placed before the Boards of the bank and consolidation of supervisory instructions. As far as regulatory matters are concerned, RBI had, in a major departure from an earlier stipulation, prescribed 7 broad themes to merit the attention of bank Boards. Separately, and in addition thereto, RBI has also mandated certain policies and matters to be placed before the Board for approval, review or information. The 7 broad themes have had no impact on the reduction of agenda items, since bank managements, and also Boards, have slotted all the agenda items under these different themes. These themes are the equivalent of umbrellas under which several agenda items can take shelter, thus, having no impact on the reduction of agenda items coming up before the Board. The present endeavour to enable Boards to utilise their time effectively, and to facilitate a more focussed and qualitative engagement on strategy and risk governance, is a very welcome and timely move. The comprehensive review and rationalisation of such instructions should result in a significant reduction in the number of items to be considered by the Board. Failing this, it would be yet another exercise that does not yield the desired outcome.

The consolidation of supervisory instructions gives a clear indication of the load that Boards are having to contend with. In 2025, the RBI undertook a comprehensive consolidation exercise, and reduced the existing regulatory circulars / guidelines from more than 9,000 to 238 function-wise master directions. RBI had, several years ago, constituted a Regulations Review Authority (RRA), and its second edition has been in existence for some time. The fact that so many directions have survived the scrutiny of the RRA is a matter of concern.

Appendix 1 deals with the policy matters prescribed by RBI for approval of the Board, and contains an analysis indicating which of them can be delegated. What the exercise reveals is that a large number of them have been considered not appropriate for delegation, meaning that the Board will continue to grapple with these issues. It is understood that policy documents are important enough to merit the attention of the Board, and should not, in any event, be finalised without the Board approval. There are quite a few items which are recommended for being taken out of the Board's direct purview. Interestingly, what is stated is that these can be left **to committees to which powers have been delegated by the Board**. Clearly, the power to delegate some of these items existed earlier, and therefore, to say that these items should be left to those committees is not saying anything new.

One item which merits specific comment is the policy on compensation of Directors/ Chief Executive Officers/ Material Risk Takers. This matter is not considered appropriate to be taken away from the Board. The question that the banking Regulator needs to ask is whether compensation in individual cases should be determined by the Central Bank, as has been done for many years, impacting the ability of the Board to assert its position vis-à-vis the senior officers of the bank. The criteria for granting fixed remuneration to the Non-Executive Directors of the bank is also a matter that has been reserved for the Board.

The approval items contained in Appendix 2 include a wide range of subjects, some of which clearly should not take up the time of the Board, if the stated intent of this exercise is to make adequate time available to the Board for focusing on strategy and risk management. There are 11 approval items which have been included in the list for delegation at the discretion of the Board. Some of them merit comment. The appointment of the Chief Risk Officer (CRO) is proposed to be left to the Risk Management Committee of the Board. Some time ago, in a paper on the need to strengthen risk management, it was stipulated that the risk management function should be sufficiently strengthened and safeguarded. The present thinking seems to be that the Board needs to have no visibility on the appointment of the CRO. Similarly, in the case of the Chief Compliance Officer (CCO), it has been left to the discretion of the Board to delegate this to the Audit Committee (AC) of the Board. Considering that the CCO is expected to ensure compliance, not only relating to accounting and financial matters, the appointment of a person to this post should be with the approval of the Board, and not of the AC. Further, the existing paragraph, which mandates the Board to review the status of action taken on points arising from the earlier meetings till action is completed to the satisfaction of the Board, is proposed to be deleted. The action taken report is the only control document available to the Board to determine whether its decisions have been acted on. To discontinue this, would be to blindside the Board on a very essential aspect on the Board's functioning. It is also proposed to delete the existing provision that a public sector bank shall place before its Board, copies of all directives/ circulars and other important communications from RBI and the Government. This deletion would lead to the Board's remaining unaware of directives and communications from RBI and the Government, and would be a grievous omission. Such items, as are important for the functioning of the Board, should not be deleted in the guise of leaving the Board with more time to focus on strategy and risk management.

There are 6 items which come under the heading "maybe discontinued at the discretion of the Board". Of them, 1 is an approval matter, 4 are review items and 1 is a reporting item. The

small number of items identified for possible discontinuation gives rise to the question whether this exercise will actually release time for the bank Boards to attend to matters that Boards alone have to address. There is perhaps a good case for RBI itself to reexamine the matter, and to prune the lists, where considered appropriate. Would it be uncharitable to ask whether a mountain went into labour, and gave birth to a mouse?

The present draft is the result of a comprehensive review and rationalisation of instructions issued by RBI from time to time. This is apparently an internal exercise. Considering that the revised prescriptive arrangement would significantly impact the manner in which Boards function, it might be worthwhile, even at this stage, to constitute a committee comprising a few Chairpersons, a few Managing Directors and a few Independent Directors to collectively reflect on the present workload of the Board, and to come up with experience-based suggestions that can make a meaningful difference.

While RBI has undertaken this mammoth exercise, SEBI has not lagged behind. Its continuing concern with the performance of Directors in the boardroom, and consequently, with the performance of Boards, has thrown up, not for the first time, the need to provide training for Directors. This proceeds on the assumption that most Directors are non-performing or under-performing, and require to be suitably enabled and encouraged to perform their duties better. The fact that this concern has been articulated shortly after the high-profile exit of the Chairperson of a bank Board, is not to be ignored. Some might say that the focus on training of Directors has come very soon after the high-profile resignation, leading to the possible conclusion that there is a causal relationship. Whether the present move is consequent, or merely subsequent, is not a matter that should detain us. It is more important to focus on what is sought to be achieved. If newspaper reports are to be given credence, it would seem that the latest initiative is to work with industry bodies, corporates and academic institutes to shore up the quality of Directors. These training programmes, as in the past, could focus on the letter of law and regulations, and get into minor details such as the forms to be filled, without touching on Board dynamics and behavioural attributes, which are critical to understand in the context of Boards. The central issue is whether the Boards are correctly constituted, or whether in spite of provisions in law and regulations, they remain a collection of individuals among whom the comfort level is high, leading to the absence of a constructive challenge being mounted to management. As in the case of medical treatment, it is necessary to go in for diagnosis before attempting prescription and treatment. The underperformance of Boards merits very careful diagnosis. It does not lend itself to a single solution across the wide variety of Boards. It is only a robust and meaningful Board evaluation exercise which will identify the areas for improvement, including, but not limited to, the replacement of under-performers, and bringing on Board those that have the commitment and competence to guide the company. This is a matter that cannot be mandated by the Regulator. It is for each Board to see the value of Board evaluation, and to put in place a proper Board evaluation process.

It is useful in this context to look at developments in one of India's large private sector banks. The non-executive Chairperson of the Board, an Independent Director, resigned from the Board stating that what was happening in the bank was not consistent with his value systems. His resignation letter did not contain the specifics that triggered the resignation. Further, subsequent statements made by him led to the papering over the seriousness that his

resignation should have attracted. RBI accorded approval, the same day, to the appointment of an interim Chairperson, and also made a statement to the effect that there was nothing wrong in the operations of the bank. Whether such a statement should have been made post haste is a matter deserving attention.

Interestingly, SEBI reportedly articulated serious concerns regarding the fall in the share price of the bank, and the resultant loss that it had caused to investors. SEBI's view was that no Director or Chairperson should act in a manner by which the interests of the shareholders would be adversely impacted. It was clearly a response to the statement made by the outgoing Chairperson, and a suggestion that departing Directors should calibrate their statements appropriately. SEBI's directions on resignations by Directors clearly state that the reason for resignation should be indicated, and there should be an assertion that there is no other reason leading to the resignation. In that view of the matter, it would seem unfair to find fault with a departing Chairperson, whose stated reason for resignation was that the developments in the bank were not in congruence with his value system and beliefs.

It is time for Regulators across domains to take a deep breath and not rush to conclusions, or give contradictory signals. It is useful to recall that when there were allegations against the CEO of another large private sector bank a few years ago, the then Non-Executive Chairperson rushed to assure stakeholders that all was well, before the cookie crumbled.

Focused Boards. Engaged Directors. The ingredients are in place. How will the recipe turn out? The proof of the pudding is in the eating.