

# Repositioning NFRA: Strengthening Regulatory Effectiveness in India's Independent Audit Oversight System

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# Fellow Introduction



## Background & Experience

- Law graduate (2024)
- Area of Interest: Competition Law, Tech Policy, Judicial reforms and governance.
- Previously worked as a NextGen Fellow at Centre for Civil Society; under livelihood and governance vertical.



# Capstone Overview



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# Theme and Research Questions

## Re-evaluating NFRA's Oversight

- Assessing whether its jurisdiction and funding structure aligns with its **institutional intent**.

## Key Research Questions

- Does NFRA cover all **Public Interest Entities** within the NBFC sector, especially private NBFC-MLs?
- How does NFRA's funding model compare to **global audit regulators and** what reforms can be incorporated by the regulator?



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# Methodology

## Multi-Pronged Research Approach

- Combined doctrinal, regulatory, and empirical analysis.

## Regulatory Gap Identification

- Analysed Companies Act, NFRA Rules, and RBI NBFC framework to spot oversight gaps.

## Empirical Analysis of NBFC-MLs

- Sampled **30 Private Limited NBFC-ML firms** [~300 NBFCs-ML (3-4%) out of 9K - 10K total NBFCs, account for 64.6% of sector assets, totalling ~ ₹15.74 lakh crore] to find **Public Fund Exposure (PFE)** using financial statements (2019–2025).

## Comparative Funding Model Study

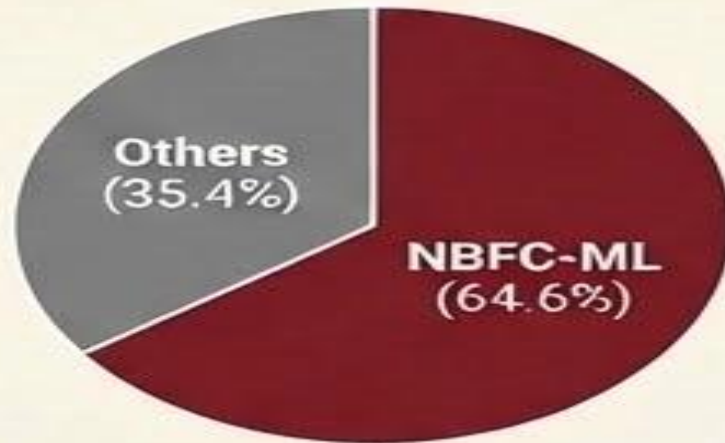
- Conducted longitudinal analysis of NFRA Annual Reports and benchmarked NFRA funding against global and domestic counterparts.



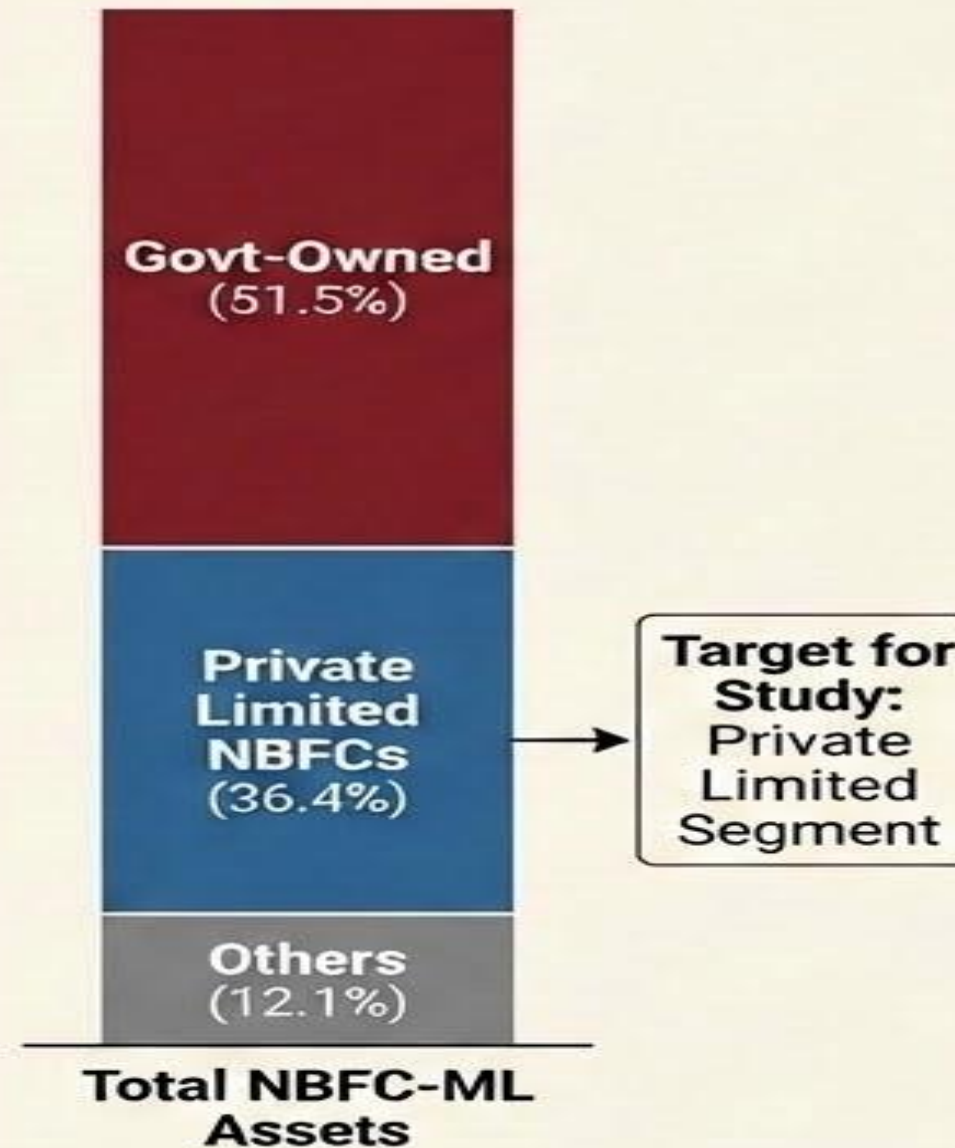
# Study Overview & Objectives: NBFC-ML and Public Fund Exposure

## 1. NBFC-ML Landscape (RBI Scale-Based Regulation)

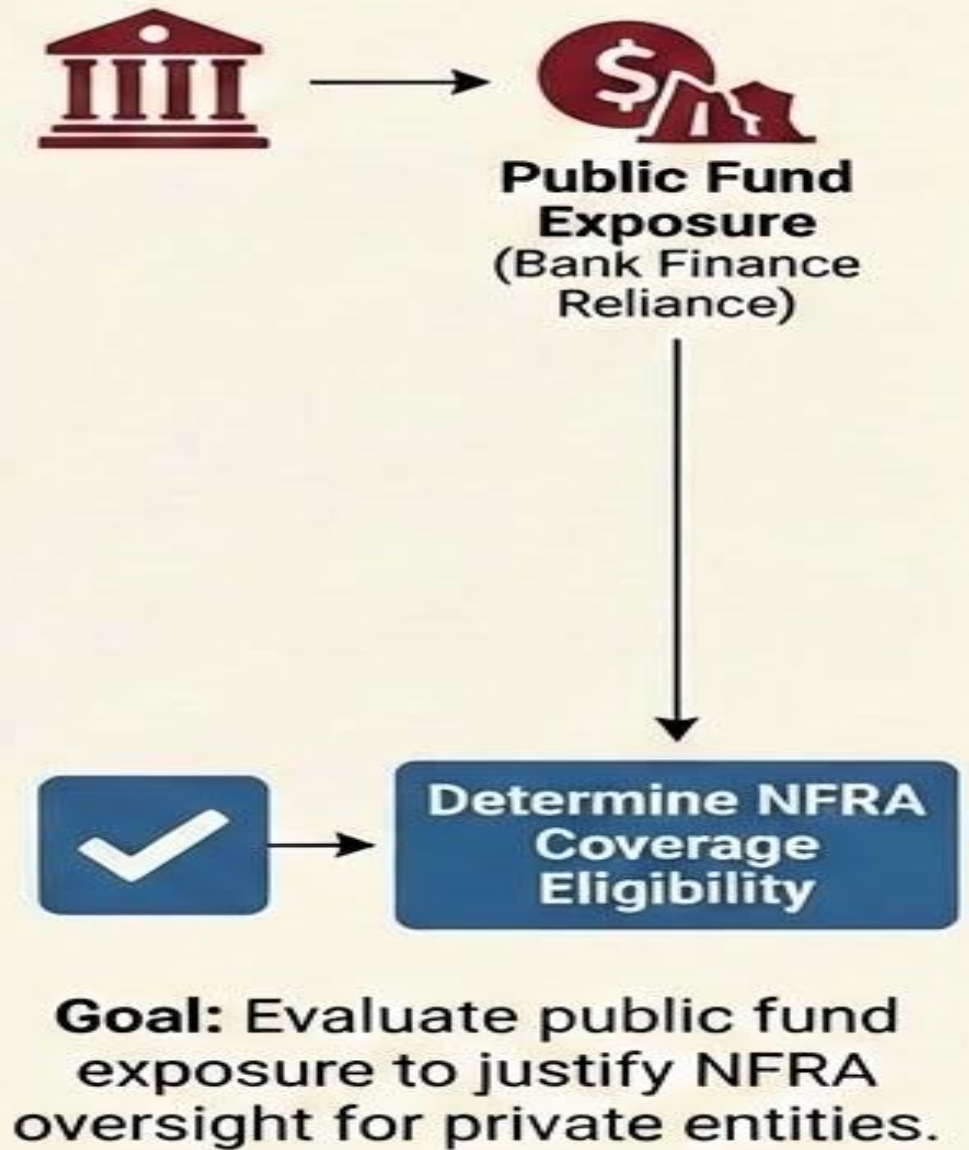
### Total NBFC Asset Share



## 2. Ownership Structure in NBFC-ML



## 3. Research Focus & Goal



# Proposed Policy Recommendations



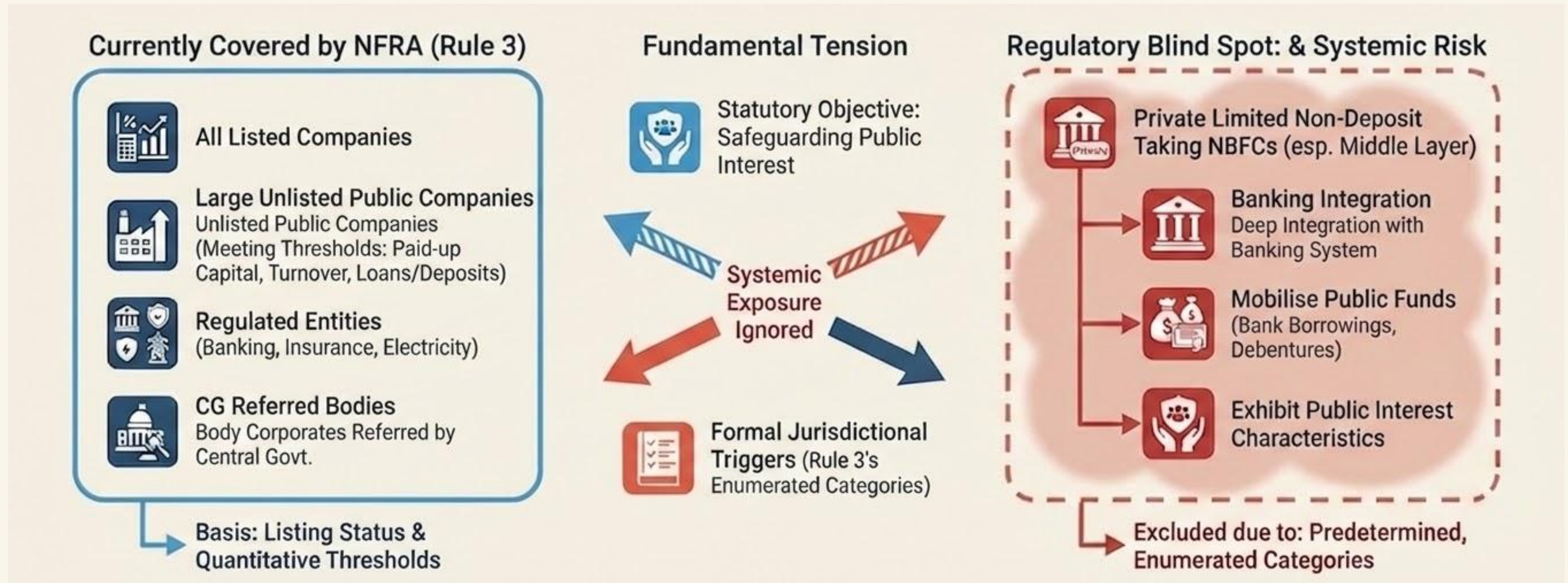
<b>S. No.</b>	<b>Current Practice</b>	<b>Recommendation</b>	<b>Impact</b>
1.	No definition of Public Interest Entities. Vaguely mentioned in the charter and NFRA rules.	Introduction a <b>statutory definition of PIE</b> to include all systemically significant entities based on criteria like public fund exposure, third-party liabilities, number of employees, etc and look beyond listing and ownership status.	Ensures that entities posing <b>systemic or public risk in financial market</b> are not excluded simply because they are unlisted or privately owned and help align with the global standards.
2.	No categorization of entities present. Exhaustive list of entities governed under Rule 3 of NFRA.	Implementation <b>Risk-Based Oversight</b> to adopt a dynamic framework classifying entities by <b>systemic risk</b> .	Help tailor regulatory intensity to direct more resources towards high-impact entities, reducing burden on low-risk firms.
3.	No coordination mechanism in place. Regulators work in silos.	Establishment of structured <b>coordination mechanisms</b> between NFRA and sectoral regulators (RBI, SEBI, IRDAI) through information sharing, joint inspections, and clear role demarcation. Model similar to Financial Stability and Development Council (FSDC) but at an operational level.	Reduce duplication, overlaps and compliance cost.
4.	Fully funded by government and no reserve fund	<b>Multi source Levy-Based Funding</b> Model (auditors, companies, investors, government); calibrated fee structure and <b>Enforcement Reserve Fund</b>	Provide independence and prepare for emergency situation
5.	Absence of Levy based funding	Adoption of <b>legal safeguard</b> for Levy based funding model. Diverse NFRA board representation.	Prevents undue influence from industry body

# Rationale Behind The Recommendations



# Jurisdictional Reforms

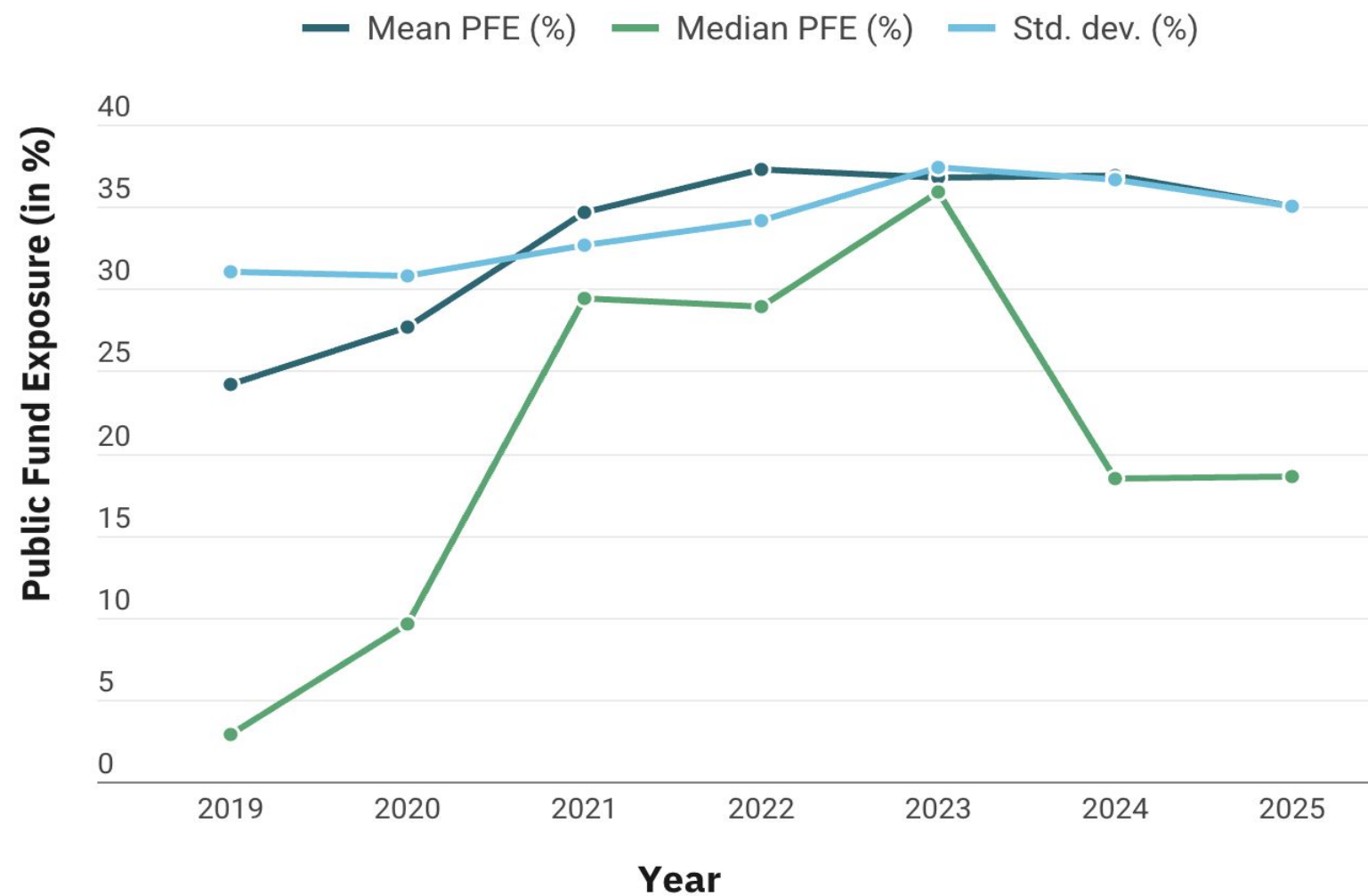
## Need for statutorily defined "Public Interest Entities"



### NFRA's Jurisdictional Scope & Regulatory Blind Spots

# Need for risk-based regulatory model

## Year-by-Year Dynamics of Public Fund Exposure



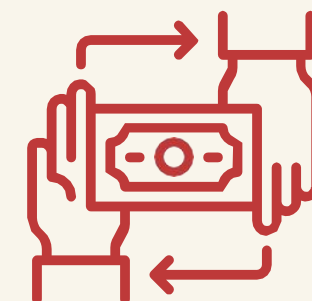
### Systemic Risk Varies Widely

- Uniform rules ignore **risk disparities** across entities.



### Diverse Borrowing Structures

- NBFCs range from **private capital-heavy** to those reliant on **bank borrowings**.



### Shifting Public Fund Exposure

- Recent years show **structurally higher** public fund reliance.



### Efficient Resource Allocation

- Higher scrutiny for **systemically important entities** and reduced burden for low-risk entities.

# Coordination with sectoral regulators to avoid overlaps



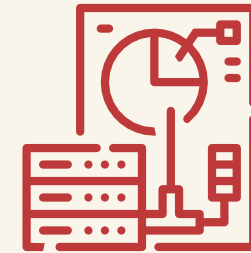
## Fragmented Regulatory Landscape

- Multiple regulators oversee similar issues, raising compliance costs.



## Cross-Regulatory Impact of Audit Failures

- Cases like IL&FS and DHFL highlight need for coordinated oversight.



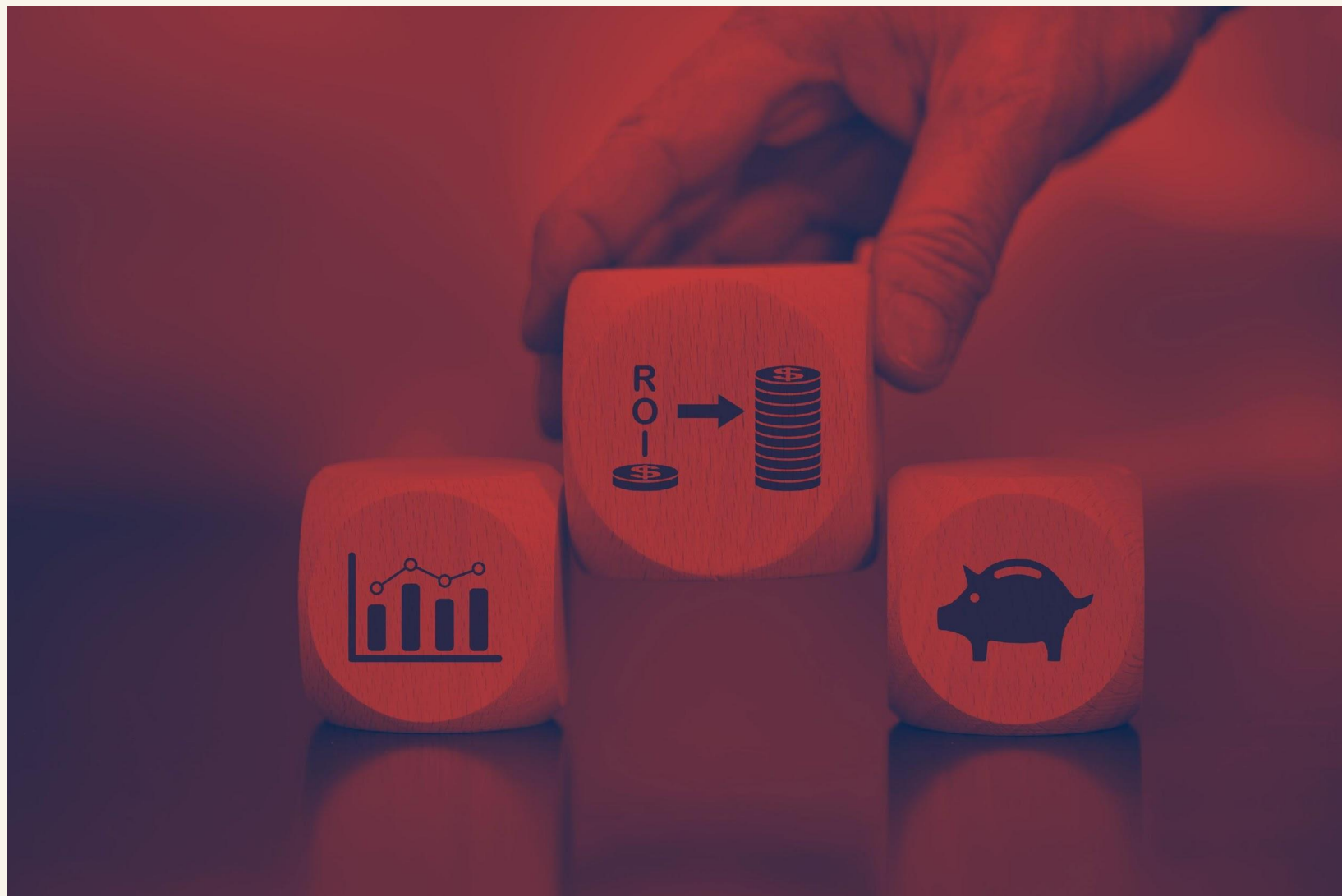
## Benefits of Data Sharing & Joint Inspections

- Reduces duplicative efforts and compliance burden for entities.
- Optimizes use of limited regulatory resources.

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# Funding Reforms

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## Introduction of legally fenced multi-source levy-based funding model

### Challenges with Current Model

- Government-dependent funding limits **regulatory independence**.
- Heavy spending on **administrative overheads**.
- Budget increases have not solved **chronic capacity constraints**.
- Funding tied to fiscal cycles restricts **multi-year planning**.

### Global Best Practices

- Leading regulators use **multi-source levy models** for stability.
- Single-source funding risks **political or industry influence**.

### Proposed Solution

- Adopt a **legally fenced, multi-source levy** model for NFRA.
- Combine government, auditor, and sectoral levies for resilience.

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# Notes on The Corporate Laws (Amendment) Bill, 2026



## NFRA Fund: A New Funding Structure

- Combines **government funds**, fees, interest, and other income for robust financing.

## Levying Fees on Auditors

- NFRA empowered to levy fees on auditors of companies and bodies corporate.

## What the Paper Argues?

- Fees to be levied on auditors, audited companies, and key stakeholders such as institutional investors (mutual funds, AIFs) (similar to the stewardship concept of SEBI)

# Thank You!



## Open for Questions

Looking forward to your insights and discussions.

Note: The present work should be viewed as a foundation rather than a definitive conclusion. While the findings provide useful insights, they also highlight several gaps and limitations that warrant further investigation. Future research with broader data, refined methodologies, and deeper analysis will be essential to build on these results and develop a more comprehensive understanding.