BUILDING INSTITUTIONAL-GRADE TREASURY: GOVERNANCE, INTERNAL CONTROLS AND REGULATORY COMPLIANCE

Building a Robust Treasury Function through International Best Practice and Alignment with RBI, SEBI and FEMA Requirements

Abstract

Treasury has grown from a back-office cash function into a strategic driver of liquidity, risk management and regulatory credibility. This article distils a practical governance framework for Indian treasury operations, aligning international benchmarks — COSO, ISO 31000, Basel liquidity principles, GTP/ ACT — with RBI, SEBI and FEMA, and classifies every major proposition as a Regulatory requirement, Recommended control, International best practice or Illustrative practice. It covers governance structure, the treasury policy, internal controls, the three lines of defence, a compliance calendar, failure points, a case study, lifecycle controls for bank borrowing, NCDs and ECBs, a consolidated framework diagram and a one-page governance checklist — for finance, cost and compliance professionals designing or auditing the treasury control environment.



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Why Treasury Governance Matters

Every rupee raised, invested, remitted or hedged passes through treasury. In practitioner experience, a weak control environment is one of the most common sources of catastrophic financial loss — unauthorised dealing, fraud, misstated cash positions, breached regulatory limits. From Barings Bank to recent Indian corporate treasury frauds, a recurring root cause is governance failing to keep pace with the speed and complexity of treasury activity.

Indian treasury governance sits at the intersection of three regimes: RBI's prudential and liquidity guidelines for regulated entities; SEBI's perimeter for intermediaries — portfolio managers, AIF managers, investment advisers, mutual funds and listed companies — governing surplus-fund deployment and related-party dealings; and FEMA for any cross-border element (ECBs, remittances, hedging, overseas investment). A framework robust on only one or two fronts is incomplete.

This article is written for Chief Financial Officers, treasurers, Cost and Management Accountants, Company Secretaries, internal auditors and other finance and compliance professionals who design, implement or review treasury control systems. Its purpose is practical rather than academic: to set out a governance and control architecture such professionals can apply directly — in drafting or revising a Treasury Policy, structuring a compliance calendar, or assessing the adequacy of existing

controls.

Basis of the Framework

This framework is not the product of primary empirical research or a field survey. It has been developed by synthesising established international treasury-control principles — COSO, ISO 31000, the Basel Committee's liquidity risk principles and the ACT/AFP treasury standards — with the specific regulatory requirements applicable to Indian entities under RBI, SEBI, FEMA and the Companies Act, 2013, and with the author's own professional experience in treasury, legal and compliance roles.

To keep this distinction transparent, the article classifies its major propositions under four labels, applied through the remainder of the text: a Regulatory requirement is a binding legal or regulatory obligation; a Recommended control is a practice the author recommends as good governance but which is not itself mandated; an International best practice is drawn from a globally recognised but non-binding standard; and an Illustrative practice shows how these elements might operate together — including the composite case study in Section 9. The classification is indicative rather than exhaustive, and readers should verify current applicability to their own entity type before relying on it.

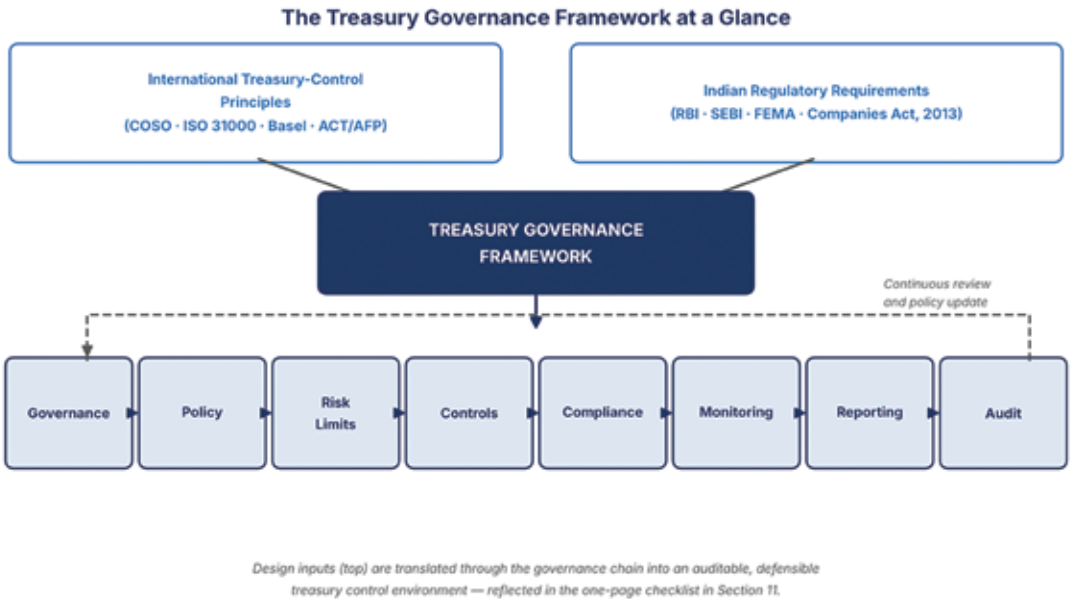


Figure 1: The treasury governance framework at a glance — international and Indian inputs translated through an eight-stage governance chain into an auditable control environment.

Governance Framework: Structure Before Process

International practice, reflected in the GTP framework, organises treasury governance around a three-tier structure [International best practice]:

Tier	Composition	Responsibility
Board / Board Risk or Audit Committee	Independent directors, CFO	Approves Treasury Policy, risk appetite and delegated authority limits; reviews exception reports
Treasury / ALCO / Investment Committee	CFO, Treasurer, CRO, business heads	Sets operating limits within board appetite; approves counterparty/instrument lists; monitors liquidity, rate and FX risk
Treasury Operations	Treasurer, dealers, back/middle office	Executes transactions within delegated limits; confirmation, settlement, reconciliation; segregation of duties

Table 1: Illustrative three-tier treasury governance structure

Note: the three-tier structure itself is an International best practice; a board-approved Treasury Policy is a Regulatory requirement for NBFCs under Scale Based Regulation and for SEBI-registered Portfolio/AIF Managers (see Section 5), and a Recommended control for other entities.

A board-approved Treasury Policy is the cornerstone of governance, covering at minimum: objectives and scope; risk appetite and tolerance limits (counterparty, instrument, duration, concentration); delegation of authority with dual authorisation above threshold values; an approved counterparty/instrument universe; segregation of front-, middle- and back-office functions; valuation methodology and stop-loss triggers; a contingency funding and stress-testing framework; and an escalation matrix for breaches. It should be reviewed at least annually — expected of NBFCs under Scale Based Regulation and of SEBI-registered Portfolio/AIF Managers under their codes of conduct. [Regulatory requirement for NBFCs and SEBI intermediaries; Recommended control otherwise]

International Best-Practice Benchmarks

International best practice throughout this section.

Four frameworks are most relevant. COSO's Internal Control framework — Control Environment, Risk Assessment, Control Activities, Information & Communication, Monitoring — maps directly onto treasury, from tone-at-the-top through maker-checker to audit oversight. COSO ERM and ISO 31000 emphasise integrating risk into strategy-setting, so liquidity, FX and counterparty limits flow from board risk appetite rather than being set independently by treasury. The Basel Committee's liquidity risk principles — governance, tolerance limits, stress testing, a contingency funding plan — are widely adapted by non-bank treasuries, consistent with RBI's NBFC Liquidity Risk Management Framework. The ACT (UK) and AFP (US) standards emphasise segregation of duties, independent trade confirmation and bank account rationalisation — increasingly adopted in India as good practice even where not mandated.

The Indian Regulatory Framework

Regulatory requirement throughout this section, unless noted.

RBI's reach depends on the entity. Banks maintain a board-approved investment policy, an independent mid-office and periodic ALCO review. NBFCs in the Middle and Upper Layers need a board-approved Liquidity Risk Management Framework, applicable liquidity coverage ratios, an ALCO and disclosed liquidity statements; outsourcing guidelines apply where treasury functions are outsourced. Non-financial corporates are not directly RBI-regulated domestically, but any cross-border element brings them within FEMA.

For SEBI-registered intermediaries, obligations arise from the Portfolio Managers Regulations, 2020 (segregation of client funds, no co-mingling); the AIF Regulations, 2012 (independent custodian, disclosed conflict-of-interest procedures for related-party dealing); LODR, 2015 (Board/Audit Committee oversight of treasury investments, Regulation 34/Schedule V disclosures, related-party approval); and SEBI's Master Circulars on risk management, expecting a documented internal control framework, periodic internal audit and a whistle-blower mechanism. Where an entity operates as both a SEBI-registered Manager and a group NBFC/IFSCA branch, governance must ring-fence the regulated business's funds, accounts and mandates from the manager's own corporate treasury. [Recommended control for the ring-fencing practice itself]

FEMA governs cross-border treasury activity: ECB end-use, all-in-cost and maturity compliance with Form ECB/ECB-2 reporting; hedges documented against a genuine underlying exposure; Overseas Direct Investment and branch remittances under the Overseas Investment Rules, 2022, reported via OI forms; and trade remittances, royalty and dividend repatriation through AD Category-I banks with Form 15CA/15CB. A pre-transaction FEMA checklist avoids a frequent contravention — a missed reporting timeline discovered only when a compounding application becomes necessary. [Pre-transaction checklist: Recommended control]

Internal Controls: Design Principles

- Segregation of duties across front, middle and back office *[Recommended control; Regulatory requirement for SEBI PMS/AIF Managers' client-fund segregation]*
- Dual authorisation (maker-checker) on payments, mandate changes and investments above threshold *[International best practice*

/ Recommended control]

- Independent confirmation of trades with the counterparty *[International best practice]*
- Real-time limit monitoring with automatic escalation *[Recommended control]*
- Periodic bank account/signatory review with immediate updates on personnel change *[Recommended control]*
- Daily bank and monthly book-to-statement reconciliation *[Recommended control; Regulatory requirement for banks under RBI ALM guidelines]*
- System-enforced role-based access *[Recommended control]*
- A confidential whistle-blower channel reviewed by the Audit Committee *[Regulatory requirement for SEBI-registered intermediaries; Recommended control otherwise]*

These sit within the three-lines model. The first line is treasury operations, managing risk day-to-day within approved limits. The second is risk/compliance, setting policy and monitoring limits independently without executing transactions. The third is internal audit, giving independent assurance to the Audit Committee. A common failure in mid-sized Indian entities is collapsing the second and third lines — internal audit also monitoring limits day-to-day, or compliance reporting through the CFO rather than independently. Restoring genuine independence is often the highest-impact improvement available. [International best practice — the Institute of Internal Auditors' Three Lines Model]

A Treasury Management System that digitally enforces maker-checker and maintains an immutable audit trail reduces operational risk materially over spreadsheet-based operations. Where a TMS is absent, dual physical sign-off, access-controlled spreadsheets and periodic IT general controls review should be documented as compensating controls. [Recommended control]

A Treasury Compliance Calendar

A consolidated compliance calendar mapping every recurring obligation across RBI, SEBI and FEMA to a responsible owner and due date is an underused governance tool:

Obligation	Frequency	Owner	Nature
ALCO / Investment Committee meeting	Monthly/ Quarterly	Treasurer / CFO	Regulatory requirement
Liquidity Coverage Ratio / structural liquidity statement	Monthly	Treasury / Risk	Regulatory requirement
ECB-2 return	Monthly	Treasury / Finance	Regulatory requirement
Related-party disclosure (treasury in group entities)	Quarterly	Company Secretary	Regulatory requirement
Overseas Investment (OI) reporting	Event-based	Treasury / Legal	Regulatory requirement
Board review of Treasury Policy	Annual	CFO / Company Secretary	Regulatory req. (NBFC/SEBI); else Recommended
Internal audit of treasury function	Annual	Internal Audit	Regulatory req. (SEBI circulars); else Recommended
Bank account and mandate reconciliation	Annual	Treasury	Recommended control

Table 2: Illustrative treasury compliance calendar (extract)

Common Failure Points

- Unauthorised dealing — prevented by system-enforced limits and real-time monitoring, not policy alone *[Recommended control]*
- Co-mingling of client/scheme funds — prevented by independent custodian arrangements and monthly certified reconciliation *[Regulatory requirement for SEBI PMS/AIF Managers]*

- FEMA reporting lapses — prevented by pre-transaction, not post-transaction, review *[Regulatory requirement]*
- Stale bank mandates enabling fraud — prevented by mandatory review on personnel exit and annual account audit *[Recommended control]*
- Related-party placements without disclosure — prevented by routing them through Audit Committee approval under Section 188 of the Companies Act, 2013 and LODR Regulation 23 *[Regulatory requirement]*
- Concentration risk — prevented by board-approved exposure limits reviewed annually against credit ratings *[Recommended control]*

Case Study: Breakdown and Recovery of Treasury Controls

Illustrative practice — a composite, hypothetical scenario, not based on a single entity.

A mid-sized, RBI-registered NBFC in the Middle Layer had grown its balance sheet rapidly, adding treasury investments, bank borrowings and its first NCD issuance. Its Treasury Policy had not been revised since a much smaller stage, and one individual continued to act as both dealer and back-office approver — a segregation gap never remediated as headcount grew.

The gap surfaced when a fixed deposit with a downgraded co-operative bank could not be liquidated after the bank was placed under RBI withdrawal restrictions; there was no rating-linked exposure limit to flag it. The first dedicated treasury audit in two years then found ECB-2 returns filed late in three of four quarters, and an NCD asset cover certificate never placed before the Audit Committee as the trust deed required.

None of these lapses was, individually, fraud — each was a control designed on paper but not operated as the business scaled. Remediation over the following two quarters included reconstituting the ALCO with an independent risk member, system-enforced maker-checker splitting dealer and back-office roles, a rating-linked counterparty limit with downgrade alerts, a named compliance owner for ECB/NCD reporting, and a standing Audit Committee agenda item for trustee certificates. Governance failures are rarely dramatic at origin — they are policy that quietly stops matching business scale, priced in fully only at the point of stress.

Lifecycle Controls for Borrowing

Borrowing creates obligations that persist long after the negotiating team has moved on, so controls must span sanction, documentation, drawdown, utilisation, covenant compliance, reporting and repayment.

Bank facilities: proposals go to the Board or a delegated Committee with amount, tenor, security and covenants disclosed, with Section 179 limits defining when full Board approval is mandatory; where borrowing funds intra-group loans or guarantees, Section 186 compliance is verified before drawdown; the term sheet is reconciled clause-by-clause against the final agreement by legal/compliance; charge creation/satisfaction (Forms CHG-1/CHG-4) are tracked against ROC records; utilisation is certified against sanctioned purpose before each tranche; a covenant tracker is reviewed quarterly with variances escalated ahead of the lender's own review; the negotiating officer is not the sole signatory on drawdown or repayment; and renewal begins 60–90 days before expiry. (Combines Regulatory requirements under the Companies Act, 2013 with Recommended controls reflecting good governance practice.)

Non-Convertible Debentures (NCS Regulations, 2021): placement requires Board and, beyond Section 42/71 limits, special resolution approval, with PAS-4/PAS-3 filings tracked; a SEBI-registered Debenture Trustee is appointed and the trust deed executed within the prescribed timeline; security/asset cover is independently certified each half-year and placed before the Audit Committee and trustee on time — one of the more common NCS compliance gaps in practice; ratings are monitored continuously with downgrades escalated immediately; a redemption/interest calendar runs independently of routine payables; and the Company Secretary's office holds the definitive NCS compliance tracker. (Predominantly Regulatory requirements under the NCS Regulations, 2021 and the Companies Act, 2013, supplemented by Recommended controls such as the independent redemption calendar.)

External Commercial Borrowings: eligibility, end-use and Automatic versus Approval Route are

confirmed before term-sheet finalisation under RBI's ECB Master Direction; all-in-cost and minimum average maturity are independently recomputed before execution; drawdown is procedurally blocked until the Loan Registration Number is obtained; end-use is certified before each tranche; the monthly ECB-2 return is filed within seven days of month-end — in the author's experience, a frequently observed point of control failure — with a named owner and tracked calendar; hedges are matched to the specific underlying exposure; refinancing is checked against negative pledge and pari passu provisions; and a second reviewer verifies the ECB-2 return before submission, with an annual compliance summary going to the Audit Committee. (Predominantly Regulatory requirements under FEMA and RBI's ECB Master Direction, supplemented by Recommended controls such as independent second-level review.)

The unifying discipline across all three channels is a single consolidated borrowing register — sanction terms, security, covenants and reporting due dates — reviewed quarterly by the CFO/Treasurer and placed before the Audit Committee annually. Fragmented tracking across separate teams and spreadsheets is itself a control weakness. [Recommended control]

One-Page Treasury Governance Checklist

A practical takeaway distilling Sections 2–10 into a single reference, following the same eight-stage chain shown in Figure 1:

Stage	Checklist
Governance	☐ Three-tier structure in place (Board/ Committee, ALCO/Investment Committee, Treasury Operations) ☐ Roles, authorities and reporting lines documented
Policy	☐ Board-approved Treasury Policy in force ☐ Reviewed within the last 12 months
Risk Limits	☐ Counterparty, instrument, duration and concentration limits approved by the Board/ALCO ☐ Limits linked to credit-rating triggers
Controls	☐ Segregation of front-, middle- and back-office duties ☐ Maker-checker enforced system-wide ☐ Independent trade confirmation
Compliance	☐ RBI/SEBI/FEMA obligations mapped to a named owner and due date ☐ Pre-transaction FEMA/ECB checklist in use
Monitoring	☐ Real-time or end-of-day limit monitoring by an independent middle office ☐ Credit-rating and covenant monitoring in place
Reporting	☐ Periodic treasury MIS to ALCO and Board/Audit Committee ☐ Exception and breach reporting escalated promptly
Audit	☐ Independent internal audit of the treasury function at least annually ☐ Second and third lines of defence kept genuinely separate

Table 3: One-page treasury governance checklist

Conclusion

Treasury governance is the disciplined intersection of board oversight, a documented policy, genuine segregation of duties across three lines of defence, and continuous compliance mapping across RBI, SEBI and FEMA. International frameworks provide the design vocabulary; Indian regulation provides the compliance floor that must never be breached. The practical task for finance, cost and compliance professionals is to translate this architecture into a living Treasury Policy, an enforced compliance calendar, and a control environment where every transaction can be traced, independently verified and defended before a regulator.

"Good treasury governance is invisible when it works and catastrophic when it fails — the measure of a mature treasury function is not the absence of risk, but the presence of controls robust enough to make every risk visible before it crystallises."

References and Further Reading

RBI Master Direction on NBFC Scale Based Regulation, 2023; RBI Liquidity Risk Management Framework for NBFCs; RBI Master Direction on ECBs, Trade Credits and Structured Obligations; SEBI (Portfolio Managers) Regulations, 2020; SEBI (AIF) Regulations, 2012; SEBI (LODR) Regulations, 2015; FEMA, 1999 and FEMA (Overseas Investment) Rules, 2022; Companies Act, 2013 — Sections 179, 186, 188; COSO Internal Control (2013) and ERM Framework (2017); ISO 31000:2018; Basel Committee Liquidity Risk Principles; ACT/AFP Treasury standards; Institute of Internal Auditors — Three Lines Model (2020). MA