STANDALONE PRIMARY DEALERS TREASURY GOVERNANCE, COMPLIANCE AND ASSURANCE UNDER THE RBI FRAMEWORK

Abstract

Every financial failure leaves behind the same uncomfortable question: who knew, and why did nobody act? In banking and financial services, the answer increasingly rests with the compliance, governance and assurance functions. The Chief Compliance Officer is expected to be independent of business, secure in tenure, equipped with technology and heard directly by the Board/Committee. Yet compliance is still viewed as a cost to be contained. Is that view sustainable?



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Introduction

"Capital absorbs the loss you could not prevent. Compliance prevents the loss you never get to see."

Most organisations run treasury as one function among many. In a Standalone Primary Dealer (SPD), treasury is the whole business. An SPD bids and underwrites in Government securities auctions, quotes two-way prices in the secondary market, funds its inventory through repo, TREPS (Triparty Repo Dealing System) and call money, and earns largely from carry income and trading profits. An SPD acts as an underwriter to the issuance of Government Securities. India currently has eight SPDs.[1] SPDs have to mandatorily register as Non-Banking Financial Companies (NBFCs) with the Reserve Bank of India (RBI) and subsequently have to obtain authorisation to function as Primary Dealers.

An SPD's portfolio is leveraged and marked to market every day. SPDs deal directly with RBI in auctions and liquidity operations. An unrecorded deal, a limit (internal or regulatory) breach that goes unnoticed or a wrongly valued (mark-to-market) position carries the potential to wipe out the capital in just a few days.

The Reserve Bank of India (Standalone Primary Dealers) Directions, 2025, issued on 28 November 2025, places every SPD in the Middle Layer under Scale Based Regulation irrespective of its size, and requires a minimum Capital to Risk-Weighted Assets Ratio (CRAR) of 15 per cent on an ongoing basis. CRAR is capital funds as a share of risk-weighted assets for credit, market and counterparty risk.[2]

[1] RBI's list of Primary Dealers shows seven SPDs. Bank of Baroda's subsidiary, bob Securities & Giltedge Ltd, began business as an SPD in October 2026, making eight. Shriram Overseas Investments Ltd holds in-principle approval (April 2026).

[2] SPD Directions, paras 8 and 16; CRAR is computed as per method under Chapter III.

The SPD as a treasury entity

Nearly every activity of a corporate or bank treasury has a counterpart in an SPD, though in an SPD it usually comes with a public-policy obligation attached (Table 1).

Table 1: Treasury activities of an SPD and their control implications

Treasury function	In SPD	Control implication
Liquidity management	Daily funding of a leveraged securities book through repo, TREPS, call money, commercial paper and RBI liquidity support	Rollover risk is critical; liquidity gaps monitored daily
Investment management	Bidding in primary auctions, underwriting commitments and Treasury Bill bidding commitments	Mandatory commitments must sit within risk limits and capital
Trading and market making	Two-way quotes on RBI's NDS-OM platform and over the counter, with minimum turnover ratios	Dealer limits, stop-loss, PV01 (price value of one basis point) and Value at Risk (VaR)
Settlement and accounting	Subsidiary General Ledger (SGL) and constituent (CSGL) settlement through the Clearing Corporation of India (CCIL)	Daily reconciliation; segregation of own and client holdings

Source: Operational Guidelines and SPD Directions. NDS-OM is RBI's Negotiated Dealing System-Order Matching platform. A CSGL account holds securities on behalf of clients. VaR estimates the loss not exceeded at a given confidence level over a set period.

A common and essential aspect is the separation of front office, mid office and back office. RBI's Master Direction - Operational Guidelines for Primary Dealers, last updated as on 22 November 2018, requires a clear functional separation of trading (front office), risk management (mid office) and settlement, accounting and reconciliation (back office), and a separation of own-account transactions from those of constituents (clients/counterparties). Every deal must generate a serially numbered deal slip, which is passed immediately to the back office for reporting, recording and processing.[3]

RBI's governance framework for SPDs

The basic governance framework for SPDs rests on different sets of instruments. The SPD Directions apply selected paragraphs of the NBFC Governance Directions, 2025.[4] RBI's July 2026 supervisory Directions apply as each specifies.[5] The Operational Guidelines for Primary Dealers also apply, among others.

The committees form the core of the governance structure: an Audit Committee to be constituted in line with section 177 of the Companies Act, 2013, a Nomination and Remuneration Committee to be constituted in line with section 178 of the Companies Act, 2013, and a Risk Management Committee that evaluates overall risks, including liquidity risk.[6] In addition, RBI's 2026 cybersecurity directions for NBFCs in the Middle Layer and above require a Board-level IT Strategy Committee, chaired by an independent director with at least seven years of IT experience, which meets at least once a quarter.[7]

Further, Key Managerial Personnel (KMP) cannot hold office in any other Middle or Upper Layer NBFC except a subsidiary, and an independent director cannot sit on the boards of more than three such NBFCs at a time.[8] The compensation policy must include malus and clawback provisions.[9]

[3] Operational Guidelines, Section I, para 6.1, applied to SPDs by SPD Directions, para 186.
[4] SPD Directions, para 5(2), applying paras 7-9, 12-18 and 25-40 of the Governance Directions.
[5] Compliance Function, Internal Audit Function and Cybersecurity Directions, all dated 31 July 2026.
[6] Governance Directions, paras 17, 18 and 9; Companies Act, 2013, sections 177 and 178.
[7] Cybersecurity Directions, paras 70-72.
[8] Governance Directions, paras 26-27. Base Layer directorships are outside this limit.
[9] Governance Directions, paras 29 and 37.

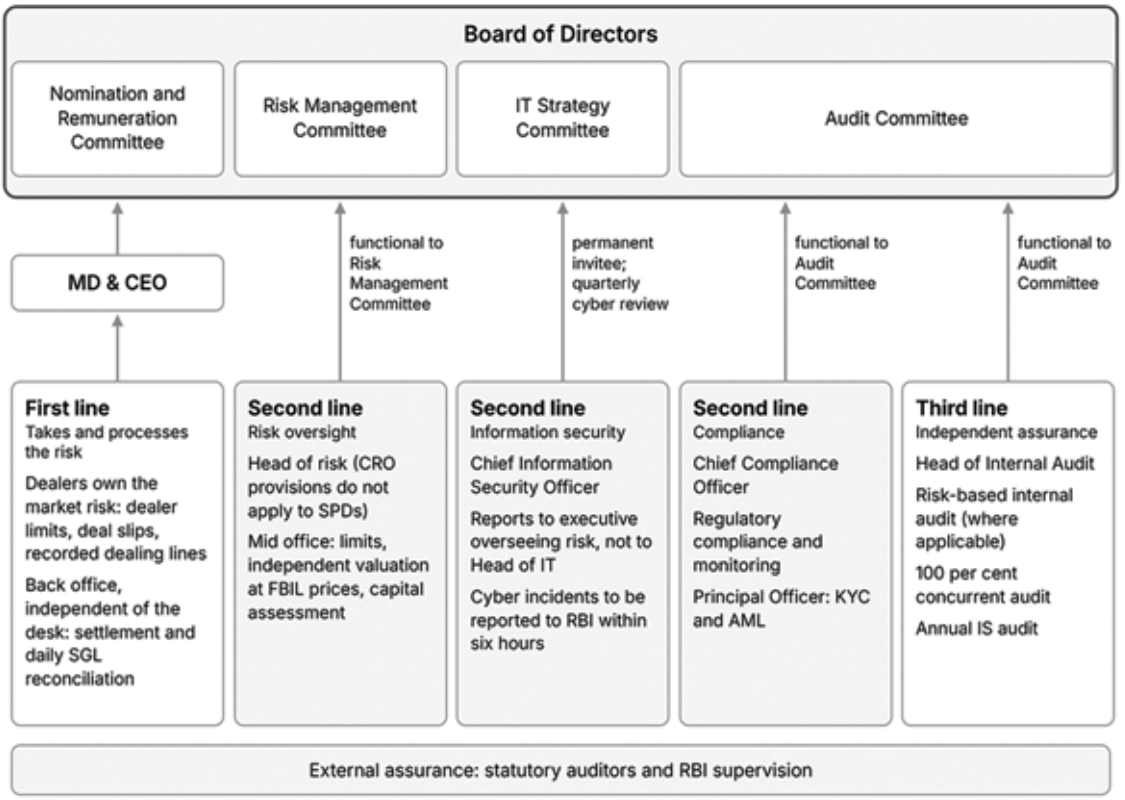


Figure 1: Governance structure and the three lines of defense

Source: RBI Directions listed under Sources. CRO: Chief Risk Officer; FBIL: Financial Benchmarks India Pvt. Ltd.; KYC: know your customer; AML: anti-money laundering; IS: information systems.

Heads of control functions

For an SPD, the rules on the Chief Compliance Officer (CCO) and Chief Information Security Officer (CISO) apply in full, those on the Head of Internal Audit (HIA) depend on asset size, and the Chief Risk Officer (CRO) rules do not apply (Table 2).

Table 2: Applicability of key requirements to SPDs

Requirement	Source (para)	Status	SPD applicability	Practical implication
Market-risk charge: higher of standardized and VaR	SPD Directions 73-94	In force	Yes; standardized alone where price data are unavailable	Run and reconcile both
Office separation; deal slips; 100% concurrent audit	Operational Guidelines I-6.1	In force	Yes	Complete audit trail
CCO: minimum three-year tenure; Board approval for removal; prior RBI intimation; no dual hatting	Compliance Function Directions 21-23, 26-29	In force	Yes (Middle Layer)	Align CCO terms and policy
Chief Risk Officer	Governance 19-24	Not applicable to SPDs	No	Independent head of risk

Requirement	Source (para)	Status	SPD applicability	Practical implication
HIA; risk-based internal audit	Internal Audit Function Directions 3, Ch. IV	In force, conditional	Only if deposit-taking or assets of ₹5,000 crore or more	Else internal audit under Operational Guidelines
CISO: preferably General Manager rank; reports to risk executive; no business targets	Cybersecurity Directions 81-82	In force	Yes	Outside IT reporting line
Cyber incidents reported within six hours of detection	Cybersecurity Directions 141	In force	Yes	Report on RBI's DAKSH platform
Common CCO, CRO and HIA norms; RBIA for all NBFCs above Base Layer	Draft, 10 June 2026	Draft	Not in force	Gap analysis

Source: RBI Directions listed under Sources. Last column: suggested practice, not a regulatory requirement.

The growing role of compliance and assurance

> *"Compliance is perhaps the only function whose greatest achievement is the crisis that never happened."*

Perhaps the most significant change for SPDs in recent years has been the steady widening of what the compliance and assurance functions are expected to do (Figure 2).

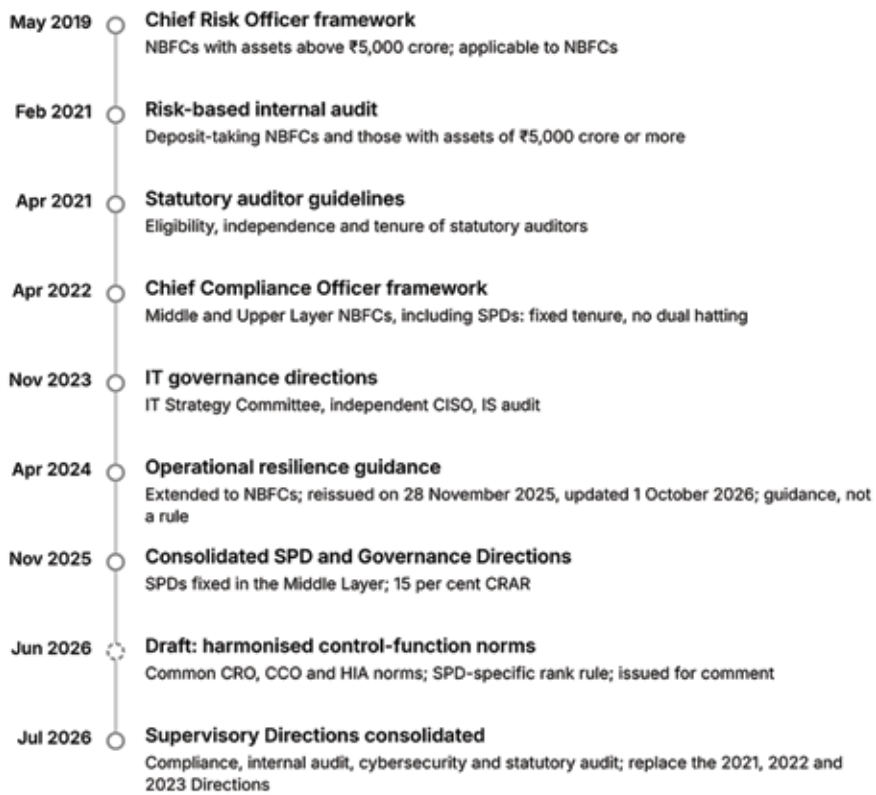


Figure 2: Key RBI milestones on control and assurance functions, 2019 to 2026

Source: RBI Directions listed under Sources. IS: information systems.

In July 2026, RBI consolidated its supervisory instructions for NBFCs into dedicated Directions, including those on the Compliance Function and the Internal Audit Function. The Compliance Function Directions require that the CCO independently evaluate new products before launch where no product committee exists[10], run a programme to close RBI inspection findings on time[11], and have express authority to approach any employee and examine any record[12]. They also require technology-based systems to track compliance obligations, escalate breaches, record approvals for deviations and give senior management a dashboard view.[13]

Three lines of defence in practice

"Every control is a question asked in advance. Every audit finding is the same question, asked a little too late."

In the first line, the front office (dealers) and the back office (operations staff) take and process the risk, with transactional controls such as dealer-wise limits, deal slips, recorded dealing lines and daily reconciliation of SGL and constituent balances with RBI and CCIL statements.

The second line comprises the mid office, which monitors limits and valuation independently of the dealing desk, together with the CCO and the CISO.

The third line is internal audit (risk-based, where applicable), led by the Head of Internal Audit (HIA), which submits its reports and independent assurance to the Audit Committee.

Key treasury controls

When treasury losses are examined closely, they tend to trace back to a familiar set of weaknesses. The following controls address most of them:

- Board-approved PV01, duration, VaR and stop-loss limits, with breaches escalated to the head of risk and reported to the Risk Management Committee.
- Independent valuation by the mid office, using benchmark prices such as those published by Financial Benchmarks India Pvt. Ltd. (FBIL)/FIMMDA/NSE/BSE/AMFI, rather than dealer quotes.[14]
- Capital discipline through the 15 per cent CRAR, with the market risk charge taken as the higher of the standardised measure and the internal VaR model.[15]
- Operational resilience, with critical operations such as auction bidding and settlement mapped and tested against disruption, drawing on RBI's Guidance Note on Operational Risk Management and Operational Resilience issued on 28 November 2025 (updated as on 1 October 2026).[16]

Example

Assume an SPD holds ₹10,000 crore of Government securities at a modified duration of 4.0 years, so PV01 is about ₹4.0 crore (₹10,000 crore × 4.0 × 0.0001), within a ₹4.5 crore limit. The monthly stop-loss is ₹60 crore. Capital is ₹1,500 crore and risk-weighted assets ₹6,818 crore, a CRAR of 22.0 per cent. On day one, yields rise 25 basis points in a parallel shift. On day two, a lender withdraws ₹1,000 crore of overnight funding (Table 3).

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[10] Compliance Function Directions, para 31.

[11] Compliance Function Directions, para 15(4).

[12] Compliance Function Directions, para 28.

[13] Compliance Function Directions, paras 32-33.

[14] SPD Directions, para 158. FIMMDA: Fixed Income Money Market and Derivatives Association of India; NSE and BSE: stock exchanges; AMFI: Association of Mutual Funds in India.

[15] SPD Directions, paras 73-94. The VaR-based requirement is the higher of the previous day's VaR and 3.3 times its 60-business-day average (para 94(8)).

[16] Guidance Note on Operational Risk Management and Operational Resilience, 2025.

Table 3: How the controls respond

Step	What happens	Control and owner
Measure (day one)	Loss ≈ ₹4.0 crore × 25 = ₹100 crore; stop-loss breached	Mid office values at FBIL prices
Escalate (day one)	Selling ₹2,000 crore of five-year-duration paper cuts PV01 by ₹1.0 crore, to about ₹3.0 crore	Head of risk escalates to MD & CEO; decisions logged
Fund (day two)	Sale proceeds, settling T+1, cover the gap	Treasury re-runs the liquidity gap statement
Capital (day two)	Capital ₹1,400 crore before tax; risk-weighted assets assumed to fall to ₹6,300 crore; CRAR about 22.2%	Finance recomputes CRAR
Reconcile (day two)	Books exceed SGL balance by ₹50 crore: a ₹50 crore purchase keyed twice	Back office finds the break; concurrent auditor reviews

The CMA's contribution

For Cost and Management Accountants (CMAs), much of this is familiar territory. Cost-of-carry analysis, funds transfer pricing, risk-adjusted performance measurement and internal audit are long-standing strengths of the profession, and each applies directly across all three lines of an SPD (Table 4).

Table 4: CMA skills and roles across an SPD (illustrative)

CMA skill and role	SPD decision	Information needed	Output	Control owner	Governance use
Cost-of-carry analysis (finance)	Hold or cut inventory	Accrual, funding cost, haircuts	Net carry; break-even yield	Treasury	Leverage limits
Funds transfer pricing (finance)	Charge funding cost to desks	Funding curve, liquidity premium	Desk margin after funding	Finance	Board-approved policy
Risk-adjusted performance (finance)	Allocate capital and limits	P&L, VaR use, capital charge	Return per unit of VaR; portfolio risk management	Finance	Capital planning; pay
Deal economics (dealing desk support)	Auction bids and underwriting	Cut-off yields, devolvement history	Bid cost; devolvement loss	Front office	Underwriting limits
Macroeconomic analysis (research)	Rate and liquidity view	Inflation, policy rate, borrowing calendar	Rate scenarios; stress losses	Treasury	Stress testing
Settlement and reconciliation (back office)	Clear breaks and fails	SGL, CSGL and CCIL statements	Break ageing; fail cost	Back office	Operations review
Financial accounting and reporting (finance)	Valuation, P&L, CRAR return	FBIL prices, accounting norms	Accounts and returns	Chief Financial Officer	Audit Committee
Compliance monitoring (compliance)	Track commitments and returns	Regulatory calendar, auction results	Breach log; dashboard	CCO	Audit Committee
Internal and cost audit (internal audit)	Test controls and returns	Deal slips, reconciliations, returns	Findings; audit rating	HIA	Audit Committee

Conclusion

"Profits in a dealing room are made in seconds, and reputations can be lost just as fast. Compliance is what stands between the two."

An SPD has no lending book or deposit franchise to cushion a treasury loss, so the strength of its controls largely determines the strength of the institution. The regulator has drawn the boundaries; giving them substance is the task of the Board and the control functions. In the years going ahead, the institutions that will stand ahead in the race will be those whose compliance and assurance functions are trusted enough to say 'stop', and strong enough to be heard. MA

Sources

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  - *Guidance Note on Operational Risk Management and Operational Resilience (RBI/2025-26/DOR.ORG. REC.301/14.10.001/2025-26 dated November 28, 2025 (last updated as on October 01, 2026))*
  - *Draft RBI (NBFC - Governance) Amendment Directions, 2026 (issued for public comment on June 10, 2026)*
- *Companies Act, 2013, and rules framed thereunder.*

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November 16, 2026