

May 21, 2007

DNBS. PD. No. 7902/ 03.05.002/2006- 07

To all public deposit taking NBFCs

Dear Sir,

Requirement of minimum Net Owned Fund (NOF) of Rs. 200 lakh for all public deposit taking NBFCs – under Section 45-IA of the Reserve Bank of India Act, 1934

As you may be aware, prior to April 21, 1999, the minimum Net Owned Fund (NOF) requirement for the new companies for grant of Certificate of Registration (CoR) to commence business of Non-Banking Financial Institution was stipulated at Rs. 25 lakh. The minimum NOF requirement was raised to Rs. 200 lakh with effect from April 21, 1999. In terms of Section 45-IC of the RBI Act, NBFCs are required to create a reserve fund and transfer therein a sum not less than twenty per cent of its net profit every year. It has been seven years since the revised minimum NOF requirement was put in place. The requirement of creation of reserve fund and transfer therein a sum not less than twenty per cent of its net profit every year, would have given intrinsic strength to the balance sheets of the companies existing before April 21, 1999. The position regarding requirement of NOF for deposit taking NBFCs has been reviewed by the Bank and a draft Circular in this regard is enclosed herewith.

2. NBFCs and other stakeholders are requested to forward their comments and feedback on the proposed draft Circular by close of business on June 07, 2007 at the following address:

The Chief General Manager-in-Charge
Department of Non-Banking Supervision
Reserve Bank of India
Central Office, Centre 1, World Trade Centre
Cuffe Parade, Colaba
Mumbai – 400 005
Fax : (022) 22150540 & 22162768

The comments/feedback may also be e-mailed.

Yours faithfully,

(P. Krishnamurthy)
Chief General Manager-in-Charge

Draft Circular – For Comments

DNBS. PD.No. // 2006- 07

May 21, 2007

To all public deposit taking NBFCs

Dear Sir,

Section 45-IA of the RBI Act – Grant of CoR – Requirement of minimum Net Owned Fund (NOF) of Rs. 200 lakh for all public deposit taking NBFCs

In terms of Section 45-IA of the RBI Act, the NBFCs existing as on January 9, 1997 were required to obtain a Certificate of Registration (CoR) from Reserve Bank of India (RBI). Eligible NBFCs not holding public deposits or those which have been incorporated after January 9, 1997 have been granted the CoR in the category of non-deposit taking NBFCs. As a part of the terms and conditions subject to which the CoR was issued, it was also stipulated that any such NBFC would have to obtain prior permission of RBI before commencing acceptance of public deposits and that such request would be entertained only after two years of track record of performance of the company. Further, in terms of Notification No. DNBS.132 / CGM (VSNM) – 99 dated April 21, 1999, the minimum NOF requirement for the new companies applying for grant of CoR to commence business of an NBFI was raised to Rs.200 lakhs.

2. It has been seven years since the revised minimum Net Owned Fund (NOF) requirement was put in place. The requirement of transfer of minimum 20% of the published profit to Reserve Fund in terms of requirement of Section 45-IC of the RBI Act, 1934 would have given intrinsic strength to the balance sheets of companies existing before April 21, 1999. Since, such Reserve Fund is treated as 'Free Reserve' for the purpose of calculation of NOF, it would facilitate the NBFCs existing before on April 21, 1999 to comply with minimum NOF requirement of Rs 200 lakh, in case enhanced NOF prescription is made applicable to existing NBFCs.

3. It has now been decided to prescribe that:

- no deposit taking NBFC will be permitted to accept deposit, if its NOF is less than Rs. 200 lakh;
- deposit taking NBFCs having NOF less than Rs 200 lakh would be given two years time from the date of this circular to attain enhanced NOF limit;

- a deposit taking NBFC not able to attain the revised minimum NOF requirement even after the transition period of two years will be automatically converted to non-deposit taking category and shall be required to repay the deposits held by it to the depositors within three years time i.e. within 5 years from the date of circular.

Yours faithfully,

(P. Krishnamurthy)
Chief General Manager In-Charge