भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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DRAFT FOR PUBLIC COMMENTS

December 12, 2012

All NBFCs (except primary dealers)

Dear Sir,

'Review of NBFC Regulatory Framework – Recommendations of the Working Group on Issues and Concerns in the NBFC Sector – Prudential Regulations

The Reserve Bank set up a Working Group (WG) under the chairmanship of Smt. Usha Thorat, former Deputy Governor, RBI, to review the extant regulatory framework of NBFCs. The WG submitted the report on August, 2011 which was placed in public domain by the Reserve Bank for comments. The report along with the feedback was examined by the Reserve Bank. Consequently, it has been decided to amend the existing regulatory framework for NBFCs, wherever applicable.

2. The details of changes made in prudential regulations, are given in the Annex.

Yours sincerely,

(Uma Subramaniam)
Chief General Manager-in-Charge

Encl: as above.

Annex

Revised Guidelines pertaining to Prudential Regulatory Framework

1. Tier l Capital

1.1 At present, all deposit taking NBFCs and systemically important non-deposit taking NBFCs (NBFCs-ND with asset size of Rs. 100 crore and above) are required to have minimum CRAR of 15%. Consequently Tier l capital cannot be less than 7.5%. For Infrastructure Finance Companies (IFCs), however, Tier l capital cannot be less than 10%. Similarly NBFCs primarily engaged in lending against gold jewellery have to maintain a minimum Tier l capital of 12 percent w.e.f. April 01, 2014.

1.2 Based on the Working Group recommendations, it has been decided that Tier l capital be raised to 12% for all captive NBFCs (90 per cent and above of total assets (net of intangibles) are on financing parent company's products/services), and for NBFCs that are into lending to / investment in sensitive sectors namely, capital market, commodities and real estate, to the extent of 75% or more of their total assets net of intangible assets. Other NBFCs including IFCs, shall maintain Tier l capital at 10%. Existing NBFCs that do not fulfill the requirement would be given a period of three years from the date of this notification to comply, upon which they shall produce a statutory auditor's certificate to the effect.

2. Risk weights for Capital Market Exposures (CME) and Commercial Real Exposures (CRE)

2.1 The risk weights on exposure to capital market and real estate, for NBFCs in a bank group shall be the same as specified for banks. Further, the risk weights for NBFCs that are not sponsored by banks or that are not part of a group that contains a bank may be raised to 150 per cent for capital market exposures and 125 per cent for CRE exposures.

2.2 Notwithstanding the above, where Tier l capital has been prescribed at 12% such as for captive NBFCs or those that have exposure to sensitive sectors as specified in paragraph 1.2 above, the higher risk weights as stated in para 2.1 above, would not be applicable.

3. Asset Classification and Provisioning Norms:

3.1 At present, the period for classifying loans into NPAs in case of NBFCs is higher at 180/360 days compared to 90 days for banks. It has been decided that the asset classification and provisioning norms (including standard asset provisioning norms) should, in a phased manner, be made similar to that of banks for all registered NBFCs irrespective of size. The same will be implemented in phases, viz; a 120 day norm shall be applied from April 01, 2014 to March 31, 2015 and a 90 day norm thereafter. A one-time adjustment of the repayment schedule which shall not amount to restructuring will, however, be permitted.

3.2 Further, it is proposed to raise the provisioning for standard assets from 0.25 per cent to 0.40 per cent of the outstanding amount w.e.f. March 31, 2014 for all NBFCs

4. Deposit – Taking NBFCs

4.1 Under the current regulatory framework, an Asset Finance Company having net owned funds (NOF) of twenty five lakh of rupees or more and complying with all the prudential norms and with capital adequacy ratio of not less than fifteen percent need not be rated for the purpose of acceptance of deposits.

4.2 It has been decided that all existing NBFCs-D, including AFCs, should be credit rated and that unrated NBFCs, including AFCs, should not be permitted to accept deposits. Existing unrated NBFCs-D will be given a period of one year to get themselves rated if they wish to continue to accept deposits. Thereafter, they would not be allowed to accept any fresh deposits or renew existing deposits, till they get themselves rated.

4.3 Further, the limit for acceptance of deposits for rated AFCs is reduced from 4 times to 2.5 times NOF. AFCs presently exceeding the limit of 2.5 times NOF shall not renew or accept fresh deposits till such time they reach the revised limit. Each of such AFCs would be given specific time period within which they should comply with the norm of 2.5 times the NOF.

5. Government NBFCs

5.1 All Government companies that qualify as NBFCs under the revised principal business criteria will be required to comply with the regulatory framework applicable to NBFCs at the earliest.

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