भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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DRAFT FOR PUBLIC COMMENTS

All NBFCs (except primary dealers) **December 12, 2012**

Dear Sir,

'Review of NBFC Regulatory Framework – Recommendations of the Working Group on Issues and Concerns in the NBFC Sector – Liquidity Management for NBFCs

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 and accordingly, it has been decided to amend the existing regulatory framework for NBFCs wherever applicable.

2. The details of changes made to the existing regulatory framework on liquidity management for NBFCs are given in the Annex.

Yours sincerely,

(Uma Subramaniam)
Chief General Manager-in-Charge

Encl: as above.

Annex

Revised Guidelines on Liquidity Management for NBFCs

As NBFCs are involved in maturity transformation, liquidity risks are endemic to them, with assets being mostly illiquid and of longer tenure than liabilities. Most NBFCs are non-deposit taking entities and are dependent on wholesale funding markets. As a result, several of them would be exposed to wholesale funding risk. NBFCs are seen to be dependent on money market instruments such as CPs and short term bank borrowings but have little flexibility in shedding their long term assets under situation of stress.

2. As per the extant regulatory framework, the Bank has stipulated the maintenance of a statutory liquidity ratio of 15% of aggregate deposit for deposit accepting NBFCs, besides, making applicable ALM guidelines to those holding deposit of Rs. 20 crore and above. The main focus of the ALM guidelines is on short term mismatches running up to 30 days and NBFCs are expected to ensure that the negative gap in the 1-30 day bucket does not exceed 15% of cash outflows. Such norms have also been extended to systemically important NBFCs-ND and the same guidelines relating to negative gap have been mandated for them. However, our experience bears out the fact that the existing liquidity and ALM guidelines do not adequately address liquidity risks faced by the NBFCs.

3. The Working Group to review the extant regulatory framework of NBFCs made a number of recommendations on liquidity management in NBFCs. Accordingly, it has been decided that, henceforth, all registered NBFCs - deposit taking and non-deposit taking, should maintain high quality liquid assets in cash, bank deposits available within 30 days, money market instruments maturing within 30 days, investment in actively traded debt securities (valued at 90 per cent of the quoted price) and carrying a rating not lower than AA or equivalent, equal to the gap between total net cash inflows and outflows over the 1 to 30 day time bucket as a liquidity coverage requirement. In other words, there should not be any liquidity gap in the 1-30 day bucket.

4. For deposit taking NBFCs, the extant requirement of SLR will continue.