

## **RBI Press Release**

### **NBFCs with Net Owned Fund (NOF) of less than Rs. 25 lakh to stop carrying on the business of NBFC**

The Reserve Bank of India has directed that, NBFCs (other than those exempted from the provisions of Section 45-IA of the Reserve Bank of India Act, 1934) which have not achieved the minimum Net Owned Fund of Rs. 25 lakh by January 9, 2003, are not entitled to continue the business of a non-banking financial institution beyond that date irrespective of whether or not the decision of the Reserve Bank of India on the application of the company for certificate of registration has been communicated to it or is pending with the Reserve Bank.

NBFCs not having minimum Net Owned Fund as on January 9, 1997, were allowed to fulfil the requirement of Net Owned Fund and carry on the business of a non-banking financial institution up to a period of three years (which period has expired on January 9, 2000) or till such extended period as might specifically be granted by the Reserve Bank. An obligation had been cast on the company to inform the Reserve Bank within three months of its fulfilling the requirement of Net Owned Fund. In terms of the proviso to Section 45-IA(3), the Reserve Bank could, however, consider extension of time only up to a period not exceeding, in aggregate, six years from the date of commencement of the Reserve Bank of India (Amendment) Act, 1997 *i.e.*, January 9, 1997 and such period has also expired on January 9, 2003. Hence the companies which have not fulfilled the requirement of Net Owned Fund as on January 9, 2003 are not entitled to carry on the business of a Non-Banking Financial Institution.

However, the Reserve Bank has clarified that, NBFCs which have achieved the minimum Net Owned Fund of Rs. 25 lakh and informed the Bank of the same, can carry on the business of a non-banking financial institution until a certificate of registration is issued to it or rejection of application for registration is communicated to it.

The RBI has also clarified that, under Section 58-B (4A) of the Reserve Bank of India Act, if any person contravenes the provisions of sub-section (1) of section 45-IA, he shall be punishable with imprisonment for a term which shall not be less than one year but which may extend to five years and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.