RBI PRESS RELEASES

RBI Modifies Prudential Norms for NBFCs (May 12, 1998)

The Reserve Bank had prescribed prudential norms for Non-Banking Financial Companies (NBFCs) in January 1998. In response to advice received from the Institute of Chartered Accountants of India (ICAI) and in consultation with them, it has been decided to introduce certain modifications in the norms for accounting for investments and provisioning against Non-Performing Assets (NPAs). The modifications are designed to bring the prudential norms on the above two aspects in alignment with the accounting standard issued by the ICAI. The modifications are effective from January 31, 1998.

(i) Accounting for Investments

As advised by the ICAI, the earlier bifurcation of long term investments into quoted and unquoted investments has been done away with. Under the modified norms, the unquoted equity shares in the nature of current investments only are required to be valued at cost or break up value whichever is lower. The companies also have the option to value these shares at their fair value. However, all long term investments including unquoted investments shall be valued as per the accounting standard issued by ICAI.

(ii) Provisioning Norms for Hire Purchase and Lease Assets

The earlier norms did not take into account the value of underlying asset for the purpose of provisions against hire purchase and lease assets. Accordingly, the entire amount of overdue instalments net of the finance charges/income not taken to the credit of profit and loss account was to be fully provided for. Due credit has now been given under the revised norms to the value of underlying asset while making provisions against NPAs in the category of above assets.

(iii) Risk Weights on Exposures to the PFIs and the Bonds Issued by PSBs

Investments by NBFCs in the bonds of all Public Sector Banks (PSBs) and fixed deposits/ certificates of deposit/bonds issued by Public Financial Institutions (PFIs) as also investment in the units of Unit Trust of India shall attract 20 per cent risk weight as against 100 per cent at present.

(iv) Reversal of Income in respect of Loans and Other Credit Facilities

The NBFCs have been asked to reverse, with immediate effect, the income including interest/ discount or any other charges on NPAs recognised and taken to the profit and loss account but remaining unrealised before the asset became NPA.

2. Prohibition to Make Loans and Investments in case of Default in Repayment of Public Deposits

With a view to further protecting the interests of the depositors, the NBFCs have been directed, with immediate effect, not to grant any loan or other credit facility or make investment or create any other asset as long as the default in repayment of public deposits in accordance with the provisions of Section 45QA(1) of the RBI Act exists.