

**RBI Regulations for NBFCs –
Amendment to NBFC Directions on Prudential Norms**

Ref. DNBS(PD).CC.No.20/02.01/2001-02

June 6, 2002

**To All Non-Banking Financial Companies
including Residuary Non-Banking Companies**

Dear Sirs,

**RBI Regulations for NBFCs –
Amendment to NBFC Directions on Prudential Norms**

We invite your attention to the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 contained in Notification No. DFC.119/DG(SPT)-98 dated January 31, 1998 (as amended upto April 22, 2002).

**2. Removal of the concept of `Past Due` –
Amendment to the definition of `non-performing asset`**

(1) In terms of paragraph 2 (2) of the Circular DNBS.PD CC. No. 19/02.01/2001-02 dated April 22, 2002, it was advised that

- (a) the concept of `past due` has been done away with from the definition of `non-performing asset` (NPA) effective from March 31, 2003; and
- (b) the half yearly return on prudential norms as also the balance sheet as on March 31, 2003 should accordingly reflect the compliance therewith.

(2) Accordingly, the definition of NPA in paragraph 2(1)(xii) of the NBFC Prudential Norms Directions shall stand amended. The comparative chart of the existing and the revised definition of NPA is given hereunder:

Present Definition	Revised Definition w. e. f. 31.3.2003
“non-performing asset” (referred to in these directions as “NPA”) means :	“with effect from March 31, 2003, `non-performing asset` (referred to in these directions as “NPA”) means :
(a) an asset, in respect of which, interest has remained <i>past due</i> for six months;	(a) an asset, in respect of which, interest has remained <i>overdue for a period of six months or more</i> ;
(b) a term loan inclusive of unpaid interest, when the instalment is overdue for <i>more than six months</i> or on which interest amount remained <i>past due</i> for six months;	(b) a term loan inclusive of unpaid interest, when the instalment is <i>overdue for a period of six months</i> or more or on which interest amount remained <i>overdue for a period of six months or more</i> ;

(ba) a demand or call loan, which remained overdue for six months from the date of demand or call or on which interest amount remained past due for a period of six months;	(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
(c) a bill which remains overdue for six months;	(d) a bill which remains overdue for a period of six months or more;
(d) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months;	(e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;
(e) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months;	(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
(f) the lease rental and hire purchase instalment, which has become overdue for a period of more than twelve months;	(g) the lease rental and hire purchase instalment, which has become <i>overdue for a period of twelve months or more</i> ;
(g) In respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:	(h) In respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:
Provided that in the case of lease and hire purchase transactions, an NBFC may classify each such account on the basis of its record of recovery;	Provided that in the case of lease and hire purchase transactions, an NBFC may classify each such account on the basis of its record of recovery;

**3. Requirement of maintenance of CRAR on an on-going basis-
Amendment to format of half yearly return on Prudential Norms**

- (1) In terms of NBFC Directions on Prudential Norms, the NBFCs accepting/holding public deposits have to ensure maintenance of minimum prescribed CRAR at all times. The fact that the requirement of CRAR is applicable not only on the reporting dates but also on an on-going basis has been

reiterated in our circular DNBS(PD).CC.No.18/02.01/2001-02 dated January 1, 2002.

- (2) The compliance with CRAR and other prudential norms is monitored through the half yearly returns on reporting dates (March 31 and September 30). The return is required to be certified by the Managing Director / Chief Executive Officer of NBFC accepting / holding public deposits stating, inter alia, that the company has complied with prudential norms and that the CRAR as disclosed in the return has been correctly determined. The statutory auditors of company also append a report to support the veracity of the certificate given by the company.
- (3) It is observed that the format of the report appended to the prudential norms return requires the auditors to certify the position as furnished by the company as on the date of reporting. This has reportedly created an erroneous impression that the auditor is not required to report violation, if any, by the NBFC of the prudential norms or other stipulations between the two reporting dates.
- (4) It has, therefore, been decided to amend the format of the certificate (appended to the half yearly return specified under paragraph 13 of the above Directions and annexed thereto) by adding a separate paragraph as item (8) in the certificate to be signed by MD/CEO of the company and a clause in the Auditor's report to that effect. A comparative chart showing the existing and the revised format of the company's certificate and the auditor's report is furnished in the annexure.
- (5) The NBFCs are advised to furnish the certificate and the auditor's certificate in NBS-2 for the half year ended March 31, 2002 (to be furnished by June 30, 2002) in the new format.

4. The notification No. DNBS 158/CGM(CSM) – 2002 dated May 25, 2002 along with updated notification DFC.119/DG(SPT)-98 dated January 31, 1998 (as amended upto date) is enclosed for your scrupulous compliance.

Yours faithfully,

(C. S. Murthy)
Chief General Manager – in – Charge

Annexure

Present Format of the Certificate Signed by MD/CEO	Revised Format of the Certificate Signed by MD/CEO of NBFC
<p style="text-align: center;"><u>CERTIFICATE</u></p> <p>Certified that</p> <p>(1) The data/information furnished in this statement are in accordance with the directions issued by the Reserve Bank of India relating to income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, capital adequacy and concentration of credit and investments. The statement has been compiled from the books of account and other records of the company and to the best of my knowledge and belief they are correct;</p> <p>(2) Reserve Bank's classification of the company as a on the basis of its principal business as evidenced from its asset and income pattern continues/does not continue to hold good (delete whatever is not applicable);</p> <p>(3) The company has accepted public deposit and the quantum of such deposit is within the limits</p>	<p style="text-align: center;"><u>CERTIFICATE</u></p> <p>Certified that</p> <p>(1) The data/information furnished in this statement are in accordance with the directions issued by the Reserve Bank of India relating to income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, capital adequacy and concentration of credit and investments. The statement has been compiled from the books of account and other records of the company and to the best of my knowledge and belief they are correct;</p> <p>(2) Reserve Bank's classification of the company as a on the basis of its principal business as evidenced from its asset and income pattern continues/does not continue to hold good (delete whatever is not applicable);</p> <p>(3) The company has accepted public deposit and the quantum of such deposit is within the limits</p>

<p>applicable to the company;</p> <p>(4) The company has not paid interest/brokerage on deposit beyond the ceiling prescribed under the directions;</p> <p>(5) The company has not defaulted in repayment of matured deposit;</p> <p>(6) The credit rating for fixed deposits assigned by the Credit Rating Agency viz.----- ------(Name of the Agency) at -----(rating level) is valid;</p> <p>(7) The capital adequacy as disclosed in part C of the return after taking into account the particulars contained in part D, E and F has been correctly worked out;</p> <p>(8) classification of assets as disclosed in part F of the return has been verified and found to be correct. No rollover/rephasement of loans, lease and hire purchase transactions and bills discounted beyond due dates has been observed. The sub-standard or doubtful or loss asset, if up-graded, has been done so, in conformity with the Non-Banking Financial Companies Prudential Norms</p>	<p>applicable to the company;</p> <p>(4) The company has not paid interest/brokerage on deposit beyond the ceiling prescribed under the directions;</p> <p>(5) The company has not defaulted in repayment of matured deposit;</p> <p>(6) The credit rating for fixed deposits assigned by the Credit Rating Agency viz.----- ------(Name of the Agency) at -----(rating level) is valid;</p> <p>(7) The capital adequacy as disclosed in part C of the return after taking into account the particulars contained in part D, E and F has been correctly worked out;</p> <p>(8) The aggregate of amount outstanding in respect of loans, Equipment Leasing, Hire Purchase Finance and investment held together with other assets of the company during the half year ended March / September _____ is taken into account to ensure that the minimum stipulated capital adequacy ratio as applicable to the company has been maintained throughout the relevant</p>
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<p>(Reserve Bank) Directions 1998;</p> <p>(9) Investments in group companies as disclosed in part G of the return and exposures to individuals/firms/other companies exceeding the credit/investment concentration norms as disclosed in part H of the half-yearly return and classification of such assets is correct; and</p> <p>(10) net owned fund as per tier-I capital of the company has been correctly worked out.</p>	<p>period on an on-going basis.</p> <p>(9) Classification of assets as disclosed in part F of the return has been verified and found to be correct. No rollover/rephasing of loans, lease and hire purchase transactions and bills discounted beyond due dates has been observed. The sub-standard or doubtful or loss asset, if upgraded, has been done so, in conformity with the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998;</p> <p>(10) Investments in group companies as disclosed in part G of the return, exposures to individuals/firms/other companies exceeding the credit/investment concentration norms as disclosed in part H of the half-yearly return, investments in premises and unquoted shares as disclosed in part I of the return and particulars on suit filed and decreed debts by the company and against it as disclosed in part J of the return and classification of such assets is correct.</p>
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<p>Place : Date :</p> <p style="text-align: center;">For and on behalf of (Name of the company)</p> <p>Managing Director/Chief Executive Officer</p> <p style="text-align: center;">PRESENT FORMAT Auditor's Report</p> <p>We have examined the books of accounts and other records maintained by..... Limited in respect of the capital funds, risk assets/exposures and risk asset ratio etc. as on19... and statements herein</p>	<p style="text-align: center;">(deleted)</p> <p>Place : Date :</p> <p style="text-align: center;">For and on behalf of (Name of the company)</p> <p>Managing Director/Chief Executive Officer</p> <p style="text-align: center;">REVISED FORMAT Auditor's Report</p> <p>We have examined the books of accounts and other records maintained by Limited in respect of the capital funds, risk assets/exposures and risk asset ratio etc. as on20... and</p>
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<p>above made by the Managing Director/Chief Executive Officer of the company or his authorised representative. We report that to the best of our knowledge and according to the information and explanations given to us and as shown by the record examined by us the figures shown in Parts A, B, C, D, E, F, G and H of the statement herein above are correct.</p> <p>Place :</p> <p>Date :</p> <p style="text-align: center;">Statutory auditors</p>	<p>statements/<i>certificate</i> herein above made by the Managing Director/Chief Executive Officer of the company or his authorised representative. <i>On the basis of random checking, we certify the statement in paragraph (8) above. We further</i> report that to the best of our knowledge and according to the information and explanations given to us and as shown by the record examined by us the figures shown in Parts A, B, C, D, E, F, G, H, <i>I and J</i> of the statement herein above are correct.</p> <p>Place :</p> <p>Date :</p> <p style="text-align: center;">Statutory auditors</p>
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