

**Amendment to RBI Regulations for NBFCs
Safe custody of liquid asset securities in an
exclusive demat account**

DNBS (PD) C.C. No. 28 / 02.02 / 2002-03

July 31 , 2003

To

**All Non-Banking Financial Companies
(including Residuary Non-Banking Companies)**

Dear Sirs,

**Amendment to RBI Regulations for NBFCs
Safe custody of liquid asset securities in an
exclusive demat account**

Keeping in view certain developments and changes in market conditions, the Bank has decided to amend the regulatory framework for NBFCs relating to

- 1) Non- Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 (NBFC Directions);
- 2) Residuary Non-Banking Companies (Reserve Bank) Directions, 1987 (RNBC Directions); and
- 3) Reserve Bank of India (Non-Banking Financial Companies) Returns Specifications, 1997 (Returns Directions)

as per details given below:

- (i) The NBFCs including RNBCs are required to maintain liquid assets in the form of Government securities/guaranteed bonds as per the provisions of Section 45-IB of the RBI Act and lodge such securities in a Constituents' Subsidiary General Ledger (CSGL) Account with a scheduled commercial bank (SCB) / Stock Holding Corporation of India Ltd., (SHCIL) or in a demat account with a depository through a depository participant (DP) registered with Securities & Exchange Board of India (SEBI) or with a branch of SCB to the extent such securities are yet to be dematerialised.
- (ii) As you are aware, RBI has permitted NBFCs, vide circular IDMC/PDRS/ 3432 / 10.02.01/2002-03 dated February 21, 2003 (copy enclosed for ready reference), to enter into ready forward contracts in gilts (including reverse ready forward contracts). The NBFCs should scrupulously adhere to the restrictions and requirements for entering into such deals and meticulously comply with the related instructions.
- (iii) It may be noted that NBFCs can undertake the above types of transactions in Government securities held in excess of the prescribed statutory liquid assets requirement meaning thereby that the market value of the liquid asset securities, as in (i) above, maintained on any day should not be less than the stipulated percentage of public deposits outstanding as at the last working day of the second preceding quarter.

- (iv) In order to protect the interest of depositors, it has been decided that NBFCs including RNBCs shall maintain an exclusive CSGL or demat account to hold Government securities held for the purpose of compliance with Section 45-IB of the RBI Act. This account should be operated only for purchase or sale of securities due to increase or decrease in the quantum of public deposits or withdrawal of securities for encashment on maturity or for repayment to depositors in special circumstances, if permitted by Reserve Bank of India or any other authority. This account should not be used to undertake repo or other transactions.
- (v) In case an NBFC (including RNBC) enters into ready forward contracts in gilts (including reverse ready forward contracts) or deal in the government securities in a manner other than that permitted in sub-paragraph (iv) above, the NBFC shall open another CSGL account with a SCB or SHCIL or demat account with a depository through SEBI approved DP for keeping the Government securities for this purpose. This instruction is given in partial modification of the direction to have only one demat account earlier issued by RBI [paragraph (i) of CC.21/02.01/2002-03 dated October 1, 2002].
- (vi) Although the NBFCs were directed, in terms of our circular, *ibid*, to dematerialise the government securities held by them and report to Reserve Bank within a week of doing so, it is observed that some of the NBFCs have either not dematerialised the government securities or have dematerialized but failed to report the same to the RBI. For this purpose the quarterly liquid asset return in the reporting formats of NBS 3 and NBS 3A has been amended to include the information about the demat accounts, which will ensure that the information in this regard is not omitted by NBFCs.
- (vii) The amending Notifications Nos. 170-172 of date as also the Notifications Nos.
- a. DFC. 118 /DG (SPT) – 98 dated January 31, 1998;
 - b. DFC. 55 / DG (O) – 87 dated May 15, 1987; and
 - c. DFC (COC) 108.ED (JRP)-97 dated April 30, 1997
- (as amended up-to-date) are enclosed for your information and meticulous compliance.

2. Please acknowledge receipt to the Regional Office of the Department of Non-Banking Supervision, Reserve Bank of India under whose jurisdiction the registered Office of your company is situated.

Yours faithfully

Sd/-
(**O. P. Aggarwal**)
Chief General Manager-in-Charge