

RBI / 2006-07 /130

DNBS.(PD).CC. No.78 /03.05.002/2006-07

September 20, 2006

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

Dear Sirs,

Amendments to Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 - Treatment of security deposit for computation of risk weight adjusted value of assets

Please refer to paragraph 10 of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 contained in Notification No. DFC 119/DG(SPT)-98 dated January 31, 1998 amended from time to time on requirement as to capital adequacy.

2. It has been decided that while calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, NBFCs may 'net-off' against the total outstanding exposure to the borrower advances collateralised by cash margins/security deposits/caution money against which right to set off is available.

3. A copy of the amending Notification No. DNBS.187/ CGM (PK)-2006 dated September 20, 2006 as also the updated Notification No DFC 119/DG(SPT)-98 dated January 31, 1998 issued by the Bank is enclosed.

Yours faithfully,

(P. Krishnamurthy)
Chief General Manager In-Charge

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA
MUMBAI 400 005

NOTIFICATION No. DNBS.187/CGM (PK)-2006 dated September 20, 2006

The Reserve Bank of India, being satisfied that, in the public interest and to enable the Bank to regulate the financial system of the country to its advantage, it is necessary to amend the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, in exercise of the powers conferred upon it under Section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the following directions contained in Notification No.DFC.119/DG(SPT)-98 dated January 31, 1998 stand amended with immediate effect, namely -

1. In paragraph 10, under explanation (1), after Note (2), the following Note shall be inserted, namely,-

"(3) While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, NBFCs may net off against the total outstanding exposure of the borrower advances collateralised by cash margin/caution money/security deposits against which right to set-off is available."

2. In Part D of the format NBS 2 – Half Yearly Statement of capital funds, risk assets/exposures and risk assets ratio etc., as at the end of March/September i.e. half yearly return (NBS 2) referred to in paragraph 13 of the Directions, Note (4) may be inserted, namely,-

"(4) Netting may be done in respect of total outstanding exposure of a borrower by cash margin/caution money/security deposits against which right to set-off is available."

(P. Krishnamurthy)
Chief General Manager In-Charge