

RBI/2006-07/158  
DNBS (PD) C.C. No. 81 / 03.05.002/ 2006-07

**October 19, 2006**

To,  
All Non-Banking Financial Companies (NBFCs),  
including Residuary Non-Banking Companies (RNBCs)

Dear Sirs,

**Amendment to NBFC regulations - Certificate of Registration (CoR) issued under Section 45-IA of the RBI Act, 1934 – Continuation of business of NBFIs - Submission of Statutory Auditors Certificate - Clarification**

Please refer to circular DNBS (PD) C.C. No. 79 / 03.05.002/ 2006-07 dated September 21, 2006 on the captioned subject. In terms of the instructions contained in the said circular it has been specified that all NBFCs should submit a certificate from their Statutory Auditors every year to the effect that they continue to undertake the business of NBFIs thereby requiring them to hold CoR granted by the Bank under Section 45-IA of the RBI Act, 1934.

2. In this regard, it is further clarified that the business of non-banking financial institution (NBFIs) means a company engaged in the business of financial institution as contained in Section 45 I(a) of the RBI Act, 1934. For this purpose, the definition of 'Principal Business' given, vide Press Release 1998-99/1269 dated April 8, 1999 (copy enclosed) and mentioned in brief below may be followed:

The company will be treated as a non-banking financial company (NBFC) if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets is more than 50 per cent of the gross income. Both these tests are required to be satisfied as the determinant factor for principal business of a company.

3. In the case of an existing company which has been granted CoR by the Bank to carry on NBFIs business its business profile may have undergone a change over a period of time. In case of new companies since such

companies cannot commence business of NBFIs without obtaining CoR, the Bank grants CoR on the basis of their intention to engage in the business of NBFIs; however such an intention may not have materialised. Hence, it is possible, that there are companies holding the CoR to commence/carry on the business of NBFIs without actually undertaking NBFIs activity. It is for this reason the submission of Auditor's Certificate in support of commencement/continuance of the business of NBFIs and fulfilling the criteria of the principal business detailed in Press Release of April 8, 1999 by NBFIs has been prescribed.

Yours faithfully,

(P. Krishnamurthy)  
Chief General Manager In-Charge

**Press Release**

**RBI to consider gross assets and gross income  
For identification of principal business of an NBFC**

**April 8, 1999**

The Reserve Bank of India today announced that in order to identify a particular company as a non-banking financial company (NBFC), it will consider both, the assets and the income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. The company will be treated as an NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets should be more than 50 per cent of the gross income. Both these tests are required to be satisfied as the determinant factor for principal business of a company.

**Background**

Any company which carries on the business of a non-banking financial institution as its principal business as defined in Section 45I© read with Section 45I(f) of the Reserve Bank of India Act, 1934 is to be treated as an NBFC. Any company which carries on the principal business of agricultural activities, industrial activities, trading in commodities, dealing in immovable properties, etc., is, however, not a financial institution. Since the term 'principal business' has not been defined in law, the Reserve Bank has now decided the description of principal business for the purpose of identification of an NBFC. It is more relevant in view of the statutory provisions that an NBFC require compulsory registration with the Reserve Bank to commence or carry on the financial business as the case may be. NBFCs incorporated before January 9, 1997 should have applied for such a Certificate of Registration within six months ending on July 8, 1997 to enable them to carry on their business of financial nature. NBFCs incorporated on or after January 9, 1997 are not allowed to commence the business of financial activities without obtaining a Certificate of Registration from the Reserve Bank. The auditors of all NBFCs are required to report directly to the Reserve Bank the non-compliance by any company of the above statutory provisions.

**Alpana Killawala  
General Manager**

**Press Release : 1998-99/1269**