

**RBI/2006-07/195**

**DNBS (PD) CC No. 84 / 03.10.27 / 2006-07**

**December 4, 2006**

To,

All Non-Banking Financial Companies (NBFCs)  
Including Residuary Non- Banking Companies (RNBCs)

Dear Sirs,

**Distribution of Mutual Fund products by NBFCs**

Please refer to paragraph No. 153 of the Mid-Term Review of Annual Policy Statement for the year 2006-07 (copy enclosed) announced by the Governor on October 31, 2006.

2. In order to strengthen the NBFC sector by allowing diversification in their area of business, it has been decided to allow NBFCs, selectively, to market and distribute mutual fund products as agents of mutual funds, with prior approval of Reserve Bank, for an initial period of two years and a review thereafter. NBFCs fulfilling the following minimum requirements are eligible to apply:

- (i) Minimum net owned fund of Rs.100 crore;
- (ii) The company should have made net profit as per last two years audited balance sheet;
- (iii) The percentage of net NPAs to net advances of the NBFC as per the last audited balance sheet should not be more than 3%;
- (iv) The non-deposit-taking NBFCs (NBFCs-ND) should have CRAR of 10% and deposit-taking NBFCs (NBFCs-D) should have CRAR of 12% or 15%, as applicable to the company.

3. In addition, the NBFCs would be required to adhere to the following stipulations:

i) Operational Aspects

- a) The NBFC should comply with the SEBI guidelines/regulations, including their code of conduct, for distribution of mutual fund products.

- b) The company should not adopt any restrictive practice of forcing its customers to go in for a particular mutual fund product sponsored by it. The customers should be allowed to exercise their own choice.
- c) The participation by a company's customer in mutual fund products is purely on a voluntary basis and this information should be stated in all publicity material distributed by the company in a prominent way. There should be no 'linkage' either direct or indirect between the provisions of financial services offered by the company to its customers and distribution of the mutual fund products.
- d) The company should only act as an agent of the customers, forwarding the investor's applications for purchase/sale of MF units together with the payment instruments, to the Mutual Fund/the Registrars/the transfer agents. The purchase of units should be at the customers' risk and without the company guaranteeing any assured return.
- e) The company should neither acquire units of mutual funds from the secondary market for sale to customers, nor should it buy back units of mutual funds from their customers.
- f) In case the company is holding custody of MF units on behalf of customers, it should ensure that its' own investments and the investments belonging to its' customers are kept distinct from each other.

ii) Other Aspects

- a) The risks, if any, involved in mutual fund agency business should not get transferred to the business of the NBFC.
  - b) The NBFC should have put in place guidelines on fair practices code;
  - c) The company should be adhering to Know Your Customer Guidelines and provisions of prevention of Money Laundering Act;
  - d) The company must be complying with Non-Banking Financial Companies Acceptance of Public Deposits ( Reserve Bank) Directions, 1998 and/or Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 and any other instructions / provisions of RBI Act, 1934 to the extent applicable to the NBFC concerned;
  - e) The NBFC should comply with other terms and conditions as the Bank may specify in this behalf from time to time.
4. The permission is liable to be withdrawn with a notice period of 3 months in the event of any undesirable / unhealthy operations coming to the notice of the Bank.
5. 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,

(P. Krishnamurthy)

Chief General Manager-in-Charge

Encl: As above

**Extract of paragraph No. 153 of the Mid-Term Review of Annual Policy Statement for the year 2006-07**

Non-banking financial companies (NBFCs) play a critical role as an instrument of credit delivery, particularly in the small scale and retail sectors. The Reserve Bank has been continuously emphasising on developing NBFCs into financially strong entities with skill levels necessary to cater to the needs of the common people. In order to strengthen the NBFC sector by diversifying their area of business, it is proposed to allow NBFCs:

- to issue co-branded credit cards with banks without risk sharing; and
- to market and distribute mutual fund products as agents of mutual funds.