

December 06, 2006

All Non-Banking Financial Companies
excluding Residuary Non-Banking Companies

Dear Sir,

Mid-Term Review of the Annual Policy 2006-07

Please refer to paragraph 154 of the captioned policy. A request was received from the representatives of the NBFC sector to provide a separate classification for NBFCs engaged in financing tangible assets. Companies engaged in financing real/physical assets supporting economic activity such as automobile, general purpose industrial machinery and the like would generally correspond to the classification as asset finance companies. Accordingly, it has been decided to re-classify the NBFCs.

2. Presently, the four different groups for the purpose of acceptance of deposits by NBFCs defined in paragraph 2(1) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 are :

(i) Equipment Leasing (EL) means any company which is a financial institution carrying on as its principal business, the activity of leasing of equipment;

(ii) Hire-Purchase (HP) means any company which is a financial institution carrying on as its principal business the activity of hire purchase transactions;

(iii) Investment Companies (IC) means any company which is a financial institution carrying on as its principal business the acquisition of securities; and

(iv) Loan Companies (LC) means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an equipment leasing company or a hire-purchase finance company

3. Consequent upon re-classification of NBFCs, companies financing real/physical assets for productive / economic activity will be classified as Asset Finance Company (AFC) as per the criteria given under paragraph 4. The remaining companies would be continued to be classified as loan/investment companies. In the proposed structure the following categories of NBFCs will emerge:

- (i) Asset Finance Company
- (ii) Investment Company
- (iii) Loan Company

4. Accordingly, it is advised that

- (i) the present classification in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 stands modified.
- (ii) AFC would be defined as any company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive / economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.
- (iii) Since the classification for the purpose of income recognition, asset classification and provisioning norms is based on asset specification the extant prudential norms will continue as hitherto. However, the exposure norms as regards restriction on investments in land and buildings and unquoted shares shall be modified to make provisions applicable to EL/HP companies applicable to AFC.
- (iv) The companies satisfying the above conditions may approach the Regional Office in the jurisdiction of which their Registered Office is located, along with the original Certificate of Registration (CoR) issued by the Bank to recognize their classification as Asset Finance Companies. Their request must be supported by their Statutory Auditor's certificate indicating the asset /income pattern of the company as on March 31, 2006. The change in classification would be incorporated in the Certificate of Registration issued by the Bank as NBFC-Asset Finance Company; NBFC-D-AFC if accepting deposits and NBFC-ND-AFC, if not accepting deposits.

- (v) In terms of paragraph 9D of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 all NBFCs are required to submit Statutory Auditors Certificate with reference to the position of the company as at end of the financial year ended March 31 latest by June 30, every year. In future, such Certificate will also indicate asset income pattern of each NBFCs according to new re-classification.
- (vi) The onus of including only eligible assets for the purpose of classification as AFC shall be that of the company concerned.

6. A copy each of the amending Notification Nos. DNBS. 189 / CGM (PK)-2006 and DNBS.190 / CGM (PK)-2006 both dated December 06, 2006 are enclosed for meticulous compliance.

Yours faithfully,

(P. Krishnamurthy)
Chief General Manager In-Charge