

**July 2, 2007**

- (i) The Secretary, Ministry of Finance
- (ii) The Chairman, Securities and Exchange Board of India
- (iii) President of the Institute of Chartered Accountants of India
- (iv) President of the Institute of Company Secretaries of India
- (v) Associations of NBFCs

Dear Sir,

**Master Circular- Exemptions from the provisions of RBI Act, 1934**

The Bank has issued notifications from time to time exempting some entities from the requirements of Chapter III-B of the RBI Act, 1934 or part thereof. A Master Circular on the notifications issued upto June 30, 2007 has been prepared and placed on the RBI web-site (<http://www.rbi.org.in>).

2. While the Master Circular has been prepared to enable the users to have the benefit of a consolidated circular, for the purpose of operations, they should refer to the instructions/directions contained in the relevant notification. A list of Notifications on which this Master Circular is based is given at the end of the Master Circular.

Yours faithfully,

(P. Krishnamurthy)  
Chief General Manager In-Charge

## 1. Introduction

The Bank has issued notifications from time to time exempting some entities from the requirements of Chapter III B of the RBI Act, 1934 or part thereof. A Master Circular on the basis of notifications issued upto June 30, 2006 has been prepared.

While the Master circular has been prepared to enable the users to have the benefit of a consolidated circular, for the purpose of operations, they should refer to the instructions/directions contained in the relevant notification. The Master Circular is based on notifications listed in the Annex.

### **2 (i) Exemption from provisions of Chapter III B of the RBI Act, 1934 – Housing Finance Institutions.**

The Bank has exempted a non-banking financial company which is a housing finance institution as defined in Section 2(d) of the National Housing Bank Act, 1987 from the provisions of Chapter III B of the RBI Act, 1934. <sup>1</sup>

### **2(ii) Merchant Banking company <sup>2</sup>:**

A merchant banking company has been exempted from the provisions of Section 45-IA [Requirement of registration and net owned fund], Section 45-IB [Maintenance of liquid assets] and 45-IC [Creation of Reserve Fund] of the RBI Act, 1934, <sup>3</sup> Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and <sup>4</sup> Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 subject to compliance with the following conditions:

- (a) It is registered with the Securities and Exchange Board of India as a Merchant Banker under Section 12 of the Securities and Exchange Board of India Act, 1992 and is carrying on the business of merchant Banker in accordance with the Securities and Exchange Board of India Merchant Banking (Rules) 1992 and Securities and Exchange Board of India Merchant Banking (Regulations) 1992;
- (b) acquires securities only as a part of its merchant banking business;
- (c) does not carry on any other financial activity referred to in Section 45I(c) of the RBI Act, 1934; and
- (d) does not accept or hold public deposits as defined in paragraph 2(1)(xii) of the Notification No. DFC 118/DG(SPT)-98 dated January 31, 1998.

### **2 (iii) Micro Finance Companies and Mutual Benefit Companies**

Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934 (2 of 1934) shall not apply to any non-banking financial company

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<sup>1</sup> Notification DFC(COC) No 112 ED(SG)/97 read with circular DFC(COC) No. 4438/02.04/96-97 dated June 18, 1997

<sup>2</sup> Notification No. DFC 123/ED(G)-98, dated February 3, 1998

<sup>3</sup> Notification DFC(COC) No 118 DG(SPT)-98 dated January 31, 1998

<sup>4</sup> Notification DFC(COC) No 119 DG(SPT)-98 dated January 31, 1998

- which is
  - (a) engaged in micro financing<sup>5</sup> activities, providing credit not exceeding Rs. 50,000 for a business enterprise and Rs. 1,25,000 for meeting the cost of a dwelling unit to any poor person for enabling him to raise his level of income and standard of living; and
  - (b) licensed under Section 25 of the Companies Act, 1956; and
  - (c) not accepting public deposits as defined in paragraph 2(1)(xii) of Notification No. 118 /DG(SPT)-98 dated January 31, 1998.

- being a mutual benefit company as defined in paragraph 2(1) (ixa) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 contained in Notification No. DF.118/DG(SPT)-98 dated January 31, 1998). A “mutual benefit company” means a company not notified under section 620A of the Companies Act, 1956 (1 of 1956) and carrying on the business of a non-banking financial institution, -

- (a) on 9<sup>th</sup> January 1997; and
- (b) having the aggregate of net owned funds and preferential share capital of not less than ten lakhs of rupees; and
- (c) has applied for issue of certificate of registration to the Bank on or before 9<sup>th</sup> July 1997; and
- (d) is complying with the requirements contained in the relevant provisions of the Directions issued under Section 637A of the Companies Act, 1956 to Nidhi Companies by the Central Government.

#### **2(iv) Government Companies**

Sections 45-IB and 45-IC of the Reserve Bank of India Act, 1934 (2 of 1934), paragraphs 4 to 7 of the Non-Banking Financial Companies Acceptance of Public Deposits ( Reserve Bank) Directions, 1998 and Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 except paragraph 13 A of the said directions relating to submission of information to Reserve Bank in regard to change of address, directors, auditors, etc. shall not apply to any non-banking financial company as defined in section 45-1(f) of the Reserve Bank of India Act, 1934 (2 of 1934) being a Government company<sup>6</sup> as defined in section 617 of the Companies Act, 1956. A Government Company is a company in which not less than 51% of the paid up capital is held by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is subsidiary of a Government Company as thus defined.

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<sup>5</sup> Notification No.DNBS.138/CGM(VSNM)-2000 read with DNBS.(PD).CC.No. 12 /02.01/99-2000dated January 13, 2000

<sup>6</sup> Notification No.DNBS.134, 135, 138/CGM(VSNM)-2000 read with DNBS.(PD).CC.No. 12 /02.01/99-2000dated January 13, 2000

## **2(v) Venture Capital Fund Companies<sup>7</sup>**

Section 45-IA and Section 45-IC of the Reserve Bank of India Act, 1934 (2 of 1934); Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998; and Notification No. DFC.119 / DG(SPT)-98 dated January 31, 1998 shall not apply to a non-banking financial company, which is a venture capital fund company holding a certificate of registration obtained under Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) and not holding or accepting public deposit as defined in paragraph 2(1)(xii) of the Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998.

## **2(vi) Insurance/Stock Exchange/Stock Broker/Sub-Broker**

The provisions of Section 45-IA, 45-IB, 45-IC, 45MB and 45MC of the Reserve Bank of India Act, 1934 (2 of 1934) and provisions of Non-Banking Financial Companies Acceptance of Public Deposit (Reserve Bank) Directions contained in Notification No. DFC.118 / DG(SPT)-98 dated January 31, 1998, the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 dated January 31, 1998 shall not apply to any non-banking financial company not holding or accepting public deposit as defined in paragraph 2(1)(xii) of the Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998, and –

(a) doing the business of insurance<sup>8</sup>, holding a valid certificate of registration issued under Section 3 of the Insurance Act, 1938 (IV of 1938);

(b) being a stock exchange, recognised under Section 4 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) ; and

(c) doing the business of a stock-broker or sub-broker holding a valid certificate of registration obtained under Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992)

## **2(vii) Nidhi Companies<sup>9</sup>**

The provisions of Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934 (2 of 1934) shall not apply to any non-banking financial company

(a) Notified under Section 620A of the Companies Act, 1956 (1 of 1956), known as Nidhi Companies; and

### **Chit Companies**

(b) doing the business of chits, as defined in clause (b) of Section 2 of the Chit Funds Act, 1982 (No. 40 of 1982).

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<sup>7</sup> Notification No.DNBS.163/CGM(CSM)-2002 read with DNBS(PD)CC No.22 /02.59/ 2002-03 dated November 28, 2002

<sup>8</sup> Notification No.DNBS.164/CGM(CSM)-2003 read with DNBS (PD) CC No. 23 / 01.18 / 2002-03 dated January 8, 2003

<sup>9</sup> Notification No.DNBS.164/CGM(CSM)-2003 read with DNBS (PD) CC No. 23 / 01.18 / 2002-03 dated January 8, 2003

**Annex**

<b>Sr. No.</b>	<b>Notification No.</b>	<b>Date</b>
1.	Notification No. DFC(COC) No. 112 ED(SG)/97 read with circular DFC(COC) No. 4438/02.04/96-97	June 18, 1997
2.	Notification No. DFC 123/ED(G)-98	February 3, 1998
3.	Notification No 134, 135,138 / CGM(VSNM)- 2000 read with DNBS.(PD).CC.No. 12 /02.01/99-2000	January 13, 2000
4.	Notification No. 163 / CGM(CSM) – 2002 read with DNBS(PD)CC No.22 /02.59/ 2002-03	November 28, 2002
5.	Notification No. 164 / CGM(CSM) – 2003 read with DNBS (PD) CC No. 23 / 01.18 / 2002-03	January 8, 2003