

**RBI 2008-2009/3
DNBS (PD) CC No.117 / 03.02.001 / 2008-09**

July 1, 2008

To

The Chairman / CEOs of all Non-Banking Financial (Non - Deposit Accepting or Holding) Companies

Dear Sir,

Master Circular – “Non-Banking Financial (Non - Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007”

The directions on prudential norms as applicable to NBFCs (Non - Deposit Accepting or Holding) were issued by Reserve Bank of India on February 22, 2007, vide Notification No. DNBS.193 / DG (VL) - 2007. The said Notification duly updated as on June 30, 2008 is reproduced below.

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. 193 DG(VL)-2007 dated February 22 , 2007

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to issue the Directions relating to the prudential norms as set out below, in exercise of the powers conferred by Section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, and in supersession 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, gives to every non-banking financial company not accepting / holding public deposits the Directions hereinafter specified.

Short title, commencement and applicability of the Directions:

1. (1) These Directions shall be known as the "Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007".

(2) These Directions shall come into force with immediate effect.

(3) (i) The provisions of these Directions save as provided for in clauses (ii) (iii) and (iv) hereinafter, shall apply to -

every non-banking financial company not accepting / holding public deposits.

(ii) The provisions of paragraphs 16 and 18 of these Directions shall not apply to -

- (a) a loan company;
- (b) an investment company;
- (c) an asset finance company

which is not a systemically important non-deposit taking non-banking financial company.

- (iii) These Directions shall not apply to a non-banking financial company being an investment company;

Provided that, it is

- (a) holding investments in the securities of its group/ holding/ subsidiary companies and book value of such holding is not less than ninety per cent of its total assets and it is not trading in such securities;
- (b) not accepting/holding public deposit; and
- (c) is not a systemically important non-deposit taking non-banking financial company.

However, the provisions of paragraphs 16 and 18 shall be applicable to such investment companies which are systemically important non-deposit taking non-banking financial company.

- (iv) These Directions except the provisions of paragraph 19 shall not apply to non-banking financial company being a Government company as defined under Section 617 of the Companies Act, 1956 (1 of 1956) and not accepting / holding public deposit.

Definitions

2. (1) For the purpose of these Directions, unless the context otherwise requires:

- (i) "break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;
- (ii) "carrying cost" means book value of the assets and interest accrued thereon but not received;
- (iii) "current investment" means an investment which is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made;
- (iv) "doubtful asset" means :
 - (a) a term loan, or
 - (b) a lease asset, or
 - (c) a hire purchase asset, or
 - (d) any other asset,

which remains a sub-standard asset for a period exceeding 18 months;

(v) "earning value" means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate:

- (a) in case of predominantly manufacturing company, eight per cent;
- (b) in case of predominantly trading company, ten per cent; and
- (c) in case of any other company, including non-banking financial company, twelve per cent;

NOTE : If, an investee company is a loss making company, the earning value will be taken at zero;

(vi) "fair value" means the mean of the earning value and the break up value;

(vii) "hybrid debt" means capital instrument which possesses certain characteristics of equity as well as of debt;

(viii) 'infrastructure loan' means a credit facility extended by non-banking financial companies to a borrower, by way of term loan, project loan subscription to bonds/debentures/ preference shares / equity shares in a project company acquired as a part of the project finance package such that such subscription amount to be "in the nature of advance" or any other form of long term funded facility provided to a borrower company engaged in:

- Developing or
- Operating and maintaining, or
- Developing, operating and maintaining

any infrastructure facility that is a project in any of the following sectors:

- a) a road, including toll road, a bridge or a rail system;
- b) a highway project including other activities being an integral part of the highway project;
- c) a port, airport, inland waterway or inland port;
- d) a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
- e) telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;
- f) an industrial park or special economic zone;
- g) generation or generation and distribution of power;
- h) transmission or distribution of power by laying a network of new transmission or distribution lines;

- i) construction relating to projects involving agro-processing and supply of inputs to agriculture;
- j) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
- k) construction of educational institutions and hospitals; and
- l) any other infrastructure facility of similar nature.

(ix) "loss asset" means:

- (a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; and
- (b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non availability of security or due to any fraudulent act or omission on the part of the borrower;

(x) "long term investment" means an investment other than a current investment;

(xi) "net asset value" means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme;

(xii) "net book value" means:

- (a) in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 9(2)(i) of these Directions;
- (b) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

(xiii) 'non-performing asset' (referred to in these Directions as "NPA") means:

- (a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
- (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
- (c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

- (d) a bill which remains overdue for a period of six months or more;
- (e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;
- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
- (g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;
- (h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, a non-banking financial company may classify each such account on the basis of its record of recovery;

- (xiv) "owned fund" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;
- (xv) "standard asset" means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;
- (xvi) "sub-standard asset" means:
 - (a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;
 - (b) an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 20 of these Directions;

(xvii) "subordinated debt" means an instrument, which is fully paid up, is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the non-banking financial company. The book value of such instrument shall be subjected to discounting as provided hereunder:

<u>Remaining Maturity of the instruments</u>	<u>Rate of discount</u>
(a) Upto one year	100%
(b) More than one year but upto two years	80%
(c) More than two years but upto three years	60%
(d) More than three years but upto four years	40%
(e) More than four years but upto five years	20%

to the extent such discounted value does not exceed fifty per cent of Tier I capital;

- (xviii) "substantial interest" means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten per cent of the paid up capital of the company; or the capital subscribed by all the partners of a partnership firm;
- (xix) 'Systemically important non-deposit taking non-banking financial company', means a non-banking financial company not accepting / holding public deposits and having total assets of Rs 100 crore and above as shown in the last audited balance sheet."
- (xx) "Tier I Capital" means owned fund as reduced by investment in shares of other non-banking financial companies and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund;
- (xxi) "Tier II capital" includes the following :-
- preference shares other than those which are compulsorily convertible into equity;
 - revaluation reserves at discounted rate of fifty five percent;
 - general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;

- (d) hybrid debt capital instruments; and
- (e) subordinated debt

to the extent the aggregate does not exceed Tier I capital.

(2) Other words or expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 (2 of 1934) or the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 shall have the same meaning as assigned to them under that Act or that Directions. Any other words or expressions not defined in that Act or that Directions, shall have the same meaning assigned to them in the Companies Act, 1956 (1 of 1956).

Income recognition

3. (1) The income recognition shall be based on recognised accounting principles.
- (2) Income including interest/discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.
 - (3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised, shall be reversed.
 - (4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

Explanation

For the purpose of this paragraph, 'net lease rentals' mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV of the Companies Act, 1956 (1 of 1956).

Income from investments

4. (1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis:

Provided that the income from dividend on shares of corporate bodies may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the non-banking financial company's right to receive payment is established.

(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds may be taken into account on accrual basis:

Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

(3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government may be taken into account on accrual basis.

Accounting standards

5. Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India (referred to in these Directions as "ICAI") shall be followed insofar as they are not inconsistent with any of these Directions.

Accounting of investments

6. (1)(a) The Board of Directors of every non-banking financial company shall frame investment policy for the company and implement the same;

- (b) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;
- (c) Investments in securities shall be classified into current and long term, at the time of making each investment;
- (d)
 - (i) There shall be no inter-class transfer on ad-hoc basis;
 - (ii) The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;
 - (iii) The investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;

- (iv) The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;
 - (v) The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.
- (2) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.,
- (a) equity shares,
 - (b) preference shares,
 - (c) debentures and bonds,
 - (d) Government securities including treasury bills,
 - (e) units of mutual fund, and
 - (f) others.

Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

- (3) Unquoted equity shares in the nature of current investments shall be valued at cost or break up value, whichever is lower. However, non-banking financial companies may substitute fair value for the break up value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.
- (4) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.
- (5) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.
- (6) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.
- (7) Commercial papers shall be valued at carrying cost.
- (8) A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.

Note: Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

Need for Policy on Demand/Call Loans

7. (1) The Board of Directors of every non-banking financial company granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

(2) Such policy shall, inter alia, stipulate the following, -

- (i) A cut off date within which the repayment of demand or call loan shall be demanded or called up;
- (ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
- (iii) The rate of interest which shall be payable on such loans;
- (iv) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;
- (v) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;
- (vi) A cut off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
- (vii) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

Asset Classification

8. (1) Every non-banking financial company shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

Provisioning requirements

9. Every non-banking financial company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder :-

Loans, advances and other credit facilities including bills purchased and discounted

(1) The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under :

- | | |
|----------------------|--|
| (i) Loss Assets | The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for; |
| (ii) Doubtful Assets | (a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the non-banking financial company has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis; |
| | (b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstanding) shall be made on the following basis : - |

Period for which the asset has been considered as doubtful

% of provision

Up to one year	20
One to three years	30
More than three years	50

- | | |
|--------------------------|--|
| iii) Sub-standard assets | A general provision of 10% of total outstanding shall be made. |
|--------------------------|--|

Lease and hire purchase assets

(2) The provisioning requirements in respect of hire purchase and leased assets shall be as under:

Hire purchase assets

- (i) In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by
- (a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and
 - (b) the depreciated value of the underlying asset,

shall be provided for.

Explanation : For the purpose of this paragraph,

- (1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and
- (2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

Additional provision for hire purchase and leased assets

(ii) In respect of hire purchase and leased assets, additional provision shall be made as under :

- | | |
|--|-----------------------------------|
| (a) Where hire charges or lease rentals are overdue upto 12 months | Nil |
| (b) where hire charges or lease rentals are overdue for more than 12 months but upto 24 months | 10 percent of the net book value |
| (c) where hire charges or lease rentals are overdue for more than 24 months but upto 36 months | 40 percent of the net book value |
| (d) where hire charges or lease rentals are overdue for more than 36 months but upto 48 months | 70 percent of the net book value |
| (e) where hire charges or lease rentals are overdue for more than 48 months | 100 percent of the net book value |

- (iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

NOTES :

- (1) The amount of caution money/margin money or security deposits kept by the borrower with the non-banking financial company in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement may be deducted only against the provisions stipulated under clause (ii) above.
- (2) The amount of security deposits kept by the borrower with the non-banking financial company in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may be deducted only against the provisions stipulated under clause (ii) above.
- (3) It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised cannot be taken as reason for not making provision.
- (4) An asset which has been renegotiated or rescheduled as referred to in paragraph (2) (1) (xvi) (b) of these Directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.
- (5) The balance sheet to be prepared by the NBFC may be in accordance with the provisions contained in sub-paragraph (2) of paragraph 10.
- (6) All financial leases written on or after April 1, 2001 attract the provisioning requirements as applicable to hire purchase assets.

Disclosure in the balance sheet

10. (1) Every non-banking financial company shall separately disclose in its balance sheet the provisions made as per paragraph 9 above without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of account as under :-

(i) provisions for bad and doubtful debts; and

(ii) provisions for depreciation in investments.

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the non-banking financial company.

(4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

Constitution of Audit Committee by non-banking financial companies

11. A non-banking financial company having assets of Rs. 50 crore and above as per its last audited balance sheet shall constitute an Audit Committee, consisting of not less than three members of its Board of Directors.

Explanation I: The Audit Committee constituted by a non-banking financial company as required under Section 292A of the Companies Act, 1956 (1 of 1956) shall be the Audit Committee for the purposes of this paragraph.

Explanation II: The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 292A of the Companies Act, 1956 (1 of 1956).

Accounting year

12. Every non-banking financial company shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever a non-banking financial company intends to extend the date of its balance sheet as per provisions of the Companies Act, it should take prior approval of the Reserve Bank of India before approaching the Registrar of Companies for this purpose.

Further, even in cases where the Bank and the Registrar of Companies grant extension of time, the non-banking financial company shall furnish to the Bank a proforma balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the said date.

Schedule to the balance sheet

13. Every non-banking financial company shall append to its balance sheet prescribed under the Companies Act, 1956, the particulars in the schedule as set out in Annex.

Transactions in Government securities

14. Every non-banking financial company may undertake transactions in Government securities through its CSGL account or its demat account:

provided that no non-banking financial company shall undertake any transaction in government security in physical form through any broker.

Submission of a certificate from Statutory Auditor to the Bank

15. Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act. A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered, latest by June 30, every year. Such certificate shall also indicate the asset / income pattern of the non-banking financial company for making it eligible for classification as Asset Finance Company, Investment Company or Loan Company.

Requirement as to capital adequacy

16. (1) Every systemically important non-deposit taking non-banking financial company shall maintain, with effect from April 1, 2007, a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than ten per cent of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items.

(2) The total of Tier II capital, at any point of time, shall not exceed one hundred per cent of Tier I capital.

Explanations:

On balance sheet assets

(1) In these Directions, degrees of credit risk expressed as percentage weightages have been assigned to balance sheet assets. Hence, the value of each asset/item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the minimum capital ratio. The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Weighted risk assets - On-Balance Sheet items Percentage weight

(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) <u>Investments</u>	
(a) Approved securities [Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) Fixed deposits/certificates of deposits/ bonds of public financial institutions	100
(d) Shares of all companies and debentures/bonds/commercial papers of all companies and units of all mutual funds	100
(iii) <u>Current assets</u>	
(a) Stock on hire (net book value)	100
(b) Intercompany loans/deposits	100
(c) Loans and advances fully secured against deposits held by the company itself	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good	100
(f) Bills purchased/discounted	100
(g) Others (To be specified)	100
(iv) <u>Fixed Assets (net of depreciation)</u>	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100

(v) Other assets

(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100

Notes:

- (1) Netting may be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
- (2) Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of `zero`.
- (3) While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, such non-banking financial companies may net off the amount of cash margin/caution money/security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.

Off-balance sheet items

(2) In these Directions, degrees of credit risk exposure attached to off-balance sheet items have been expressed as percentage of credit conversion factor. Hence, the face value of each item requires to be first multiplied by the relevant conversion factor to arrive at risk adjusted value of off-balance sheet item. The aggregate shall be taken into account for reckoning the minimum capital ratio. This shall have to be again multiplied by the risk weight of 100. The risk adjusted value of the off-balance sheet items shall be calculated as per the credit conversion factors of non-funded items as detailed hereunder : -

Nature of item -----	Credit conversion factor – Percentage -----
i) Financial & other guarantees	100
ii) Share/debenture underwriting obligations	50
iii) Partly-paid shares/debentures	100
iv) Bills discounted/rediscounted	100
v) Lease contracts entered into but yet to be executed	100
vi) Other contingent liabilities (To be specified)	50

Note: Cash margins/deposits shall be deducted before applying the conversion factor.

Loans against non-banking financial company's own shares prohibited

17. (1) No non-banking financial company shall lend against its own shares.

(2) Any outstanding loan granted by a non-banking financial company against its own shares on the date of commencement of these Directions shall be recovered by the non-banking financial company as per the repayment schedule.

Concentration of credit/investment

18. (1) On and from April 1, 2007 no systemically important non-deposit taking non-banking financial company shall,

(i) lend to

(a) any single borrower exceeding fifteen per cent of its owned fund; and

(b) any single group of borrowers exceeding twenty five per cent of its owned fund;

(ii) invest in

(a) the shares of another company exceeding fifteen per cent of its owned fund; and

(b) the shares of a single group of companies exceeding twenty five per cent of its owned fund;

(iii) lend and invest (loans/investments taken together) exceeding

(a) twenty five per cent of its owned fund to a single party; and

(b) forty per cent of its owned fund to a single group of parties.

Provided that the ceiling on the investment in shares of another company shall not be applicable to a systemically important non-deposit taking non-banking financial company in respect of investment in the equity capital of an insurance company upto the extent specifically permitted, in writing, by the Reserve Bank of India.

Provided further that any systemically important non-deposit taking non-banking financial company, classified as Asset Finance Company by the Reserve Bank of India, may in exceptional circumstances, exceed the above ceilings on credit / investment concentration to a single party or a single group of parties by 5 per cent of its owned fund, with the approval of its Board.

Provided further that any systemically important non-deposit taking non-banking financial company not accessing public funds, either directly or indirectly, may make an application to the Bank for modifications in the prescribed ceilings.

Explanation: "Public funds" for the purpose of the proviso shall include funds raised either directly or indirectly through public deposits, Commercial Papers, debentures, inter-corporate deposits and bank finance.

(2) Every systemically important non-deposit taking non-banking financial company shall formulate a policy in respect of exposures to a single party / a single group of parties.

Notes :

(1) For determining the limits, off-balance sheet exposures shall be converted into credit risk by applying the conversion factors as explained in paragraph 16.

(2) The investments in debentures for the purposes specified in this paragraph shall be treated as credit and not investment.

(3) These ceilings shall be applicable to the credit/investment by such a non-banking financial company to companies/firms in its own group as well as to the borrowers/ investee company's group.

Information in regard to change of address, directors, auditors, etc. to be submitted

19. Every non-banking financial company not accepting/holding public deposit shall communicate, not later than one month from the occurrence of any change in:

- (a) the complete postal address, telephone number/s and fax number/s of the registered/corporate office;
- (b) the names and residential addresses of the directors of the company;
- (c) the names and the official designations of its principal officers;
- (d) the names and office address of the auditors of the company; and
- (e) the specimen signatures of the officers authorised to sign on behalf of the company

to the Regional Office of the Department of Non-Banking Supervision of the Reserve Bank of India as indicated in the Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

Norms relating to Infrastructure loan

20. (1) Applicability

- (i) These norms shall be applicable to restructuring and/or rescheduling and/or renegotiation of the terms of agreement relating to infrastructure loan, as defined in paragraph 2(1)(viii) of these Directions which is fully or partly secured standard and sub-standard asset and to the loan, which is subjected to restructuring and/or rescheduling and/or renegotiation of terms.
- (ii) Where the asset is partly secured, a provision to the extent of shortfall in the security available, shall be made while restructuring and/or rescheduling and/or renegotiation of the loans, apart from the provision required on present value basis and as per prudential norms.

(2) Restructuring, reschedulement or renegotiation of terms of infrastructure loan

The non-banking financial companies may, not more than once, restructure or reschedule or renegotiate the terms of infrastructure loan agreement as per the policy framework laid down by the Board of Directors of the company under the following stages:

- (a) before commencement of commercial production;
- (b) after commencement of commercial production but before the asset has been classified as sub-standard;
- (c) after commencement of commercial production and the asset has been classified as sub-standard:

Provided that in each of the above three stages, the restructuring and/or rescheduling and/or renegotiation of principal and / or of interest may take place, with or without sacrifice, as part of the restructuring or rescheduling or renegotiating package evolved.

(3) Treatment of restructured standard loan

The rescheduling or restructuring or renegotiation of the instalments of principal alone, at any of the aforesaid first two stages shall not cause a standard asset to be re-classified in the sub-standard category, if the project is re-examined and found to be viable by the Board of Directors of the company or by a functionary at least one step senior to the functionary who sanctioned the initial loan for the project, within the policy framework laid down by the Board:

Provided that rescheduling or renegotiation or restructuring of interest element at any of the foregoing first two stages shall not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of interest foregone, if any, on account of adjustment in the element of interest as specified later, is either written off or 100 per cent provision is made thereagainst.

(4) Treatment of restructured sub-standard asset

A sub-standard asset shall continue to remain in the same category in case of restructuring or rescheduling or renegotiation of the instalments of principal until the expiry of one year and the amount of interest foregone, if any, on account of adjustment, including adjustment by way of write off of the past interest dues, in the element of interest as specified later, shall be written off or 100 per cent provision made thereagainst.

(5) Adjustment of interest

Where rescheduling or renegotiation or restructuring involves a reduction in the rate of interest, the interest adjustment shall be computed by taking the difference between the rate of interest as currently applicable to infrastructure loan (as adjusted for the risk rating applicable to the borrower) and the reduced rate and aggregating the present value (discounted at the rate currently applicable to

infrastructure loan, adjusted for risk enhancement) of the future interest payable so stipulated in the restructuring or rescheduling or renegotiation proposal.

(6) Funded Interest

In the case of funding of interest in respect of NPAs, where the interest funded is recognized as income, the interest funded shall be fully provided for.

(7) Income Recognition norms

The income recognition in respect of infrastructure loan shall be governed by the provisions of paragraph 3 of these Directions;

(8) Treatment of Provisions held

The provisions held by the non-banking financial companies against non-performing infrastructure loan, which may be classified as 'standard' in terms of sub-paragraph (3) hereinabove, shall continue to be held until full recovery of the loan is made.

(9) Eligibility for upgradation of restructured sub-standard infrastructure loan

The sub-standard asset subjected to rescheduling and/or renegotiation and/or restructuring, whether in respect of instalments of principal amount, or interest amount, by whatever modality, shall not be upgraded to the standard category until expiry of one year of satisfactory performance under the restructuring and/or rescheduling and/or renegotiation terms.

(10) Conversion of debt into equity

Where the amount due as interest, is converted into equity or any other instrument, and income is recognized in consequence, full provision shall be made for the amount of income so recognized to offset the effect of such income recognition:

Provided that no provision is required to be made, if the conversion of interest is into equity which is quoted;

Provided further that in such cases, interest income may be recognized at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity.

(11) Conversion of debt into debentures

Where principal amount and/or interest amount in respect of NPAs is converted into debentures, such debentures shall be treated as NPA, ab initio, in the same asset classification as was applicable to the loan just before conversion and provision shall be made as per norms.

(12) Increase in exposure limits for Infrastructure related loan and investment

The systemically important non-deposit taking non-banking financial companies may exceed the concentration of credit/investment norms, as provided in paragraph 18 of these Directions, by 5 per cent for any single party and by 10 per cent for a single group of parties, if the additional exposure is on account of infrastructure loan and/ or investment.

(13) Risk weight for investment in AAA rated securitized paper

The investment in “AAA” rated securitized paper pertaining to the infrastructure facility shall attract risk weight of 50 per cent for capital adequacy purposes subject to the fulfilment of the following conditions:

- (i) The infrastructure facility generates income / cash flows, which ensures servicing / repayment of the securitized paper.
- (ii) The rating by one of the approved credit rating agencies is current and valid.

Explanation:

The rating relied upon shall be deemed to be current and valid, if the rating is not more than one month old on the date of opening of the issue, and the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and the rating letter and the rating rationale form part of the offer document.

- (iii) In the case of secondary market acquisition, the ‘AAA’ rating of the issue is in force and confirmed from the monthly bulletin published by the respective rating agency.
- (iv) The securitized paper is a performing asset.

Exemptions

21. The Reserve Bank of India may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extension of time to comply with or exempt any non-banking financial company or class of non-banking financial companies, from all or any of the provisions of these Directions either generally or for any specified period, subject to such conditions as the Reserve Bank of India may impose.

Interpretations

22. For the purpose of giving effect to the provisions of these Directions, the Reserve Bank of India may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank of India shall be final and binding on all the parties concerned.

Repeal and Saving

23. (1) The Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 shall stand repealed by these Directions.

(2) Notwithstanding such repeal, any circular, instruction, order issued under the Directions in sub-section (1) shall continue to apply to non-banking financial companies in the same manner as they applied to such companies before such repeal.

(V. Leeladhar)
Deputy Governor

Schedule to the
Balance Sheet of a non-deposit taking non-banking financial company
(as required in terms of paragraph 13 of Non-Banking Financial (Non-Deposit
Accepting or Holding) Companies Prudential Norms (Reserve Bank)
Directions, 2007)

(Rs. in lakhs)

Particulars			
<u>Liabilities side :</u>			
(1)	Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not <u>paid</u>: (a) Debentures : Secured : Unsecured (other than falling within the meaning of public deposits*) (b) Deferred Credits (c) Term Loans (d) Inter-corporate loans and borrowing (e) Commercial Paper (f) Other Loans (specify nature) * Please see Note 1 below	Amount out- standing _____	Amount overdue _____

	<u>Assets side :</u>	
		Amount outstanding
(2)	Break-up of Loans and Advances including bills receivables [other than those included in (4) below] : (a) Secured (b) Unsecured	
(3)	Break up of Leased Assets and stock on hire and other assets counting towards AFC activities	
	(i) Lease assets including lease rentals under sundry debtors : (a) Financial lease (b) Operating lease (ii) Stock on hire including hire charges under sundry debtors: (a) Assets on hire (b) Repossessed Assets (iii) Other loans counting towards AFC activities (a) Loans where assets have been repossessed (b) Loans other than (a) above	
(4)	<u>Break-up of Investments :</u> <u>Current Investments :</u> 1. <u>Quoted :</u> (i) Shares : (a) Equity (b) Preference (ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify)	

	<p>2. <u>Unquoted</u> :</p> <p>(i) Shares : (a) Equity (b) Preference</p>																									
	(ii) Debentures and Bonds																									
	<p>(iii) Units of mutual funds (iv) Government Securities (v) Others (please specify)</p> <p><u>Long Term investments</u> :</p> <p>1. <u>Quoted</u> :</p> <p>(i) Shares : (a) Equity (b) Preference</p> <p>(ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify)</p> <p>2. <u>Unquoted</u> :</p> <p>(i) Shares : (a) Equity (b) Preference</p> <p>(ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify)</p>																									
(5)	<p>Borrower group-wise classification of assets financed as in (2) and (3) above :</p> <p>Please see Note 2 below</p> <table border="1"> <thead> <tr> <th rowspan="2">Category</th> <th colspan="3">Amount net of provisions</th> </tr> <tr> <th>Secured</th> <th>Unsecured</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>1. Related Parties **</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(a) Subsidiaries</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(b) Companies in the same group</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(c) Other related parties</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>			Category	Amount net of provisions			Secured	Unsecured	Total	1. Related Parties **				(a) Subsidiaries				(b) Companies in the same group				(c) Other related parties			
Category	Amount net of provisions																									
	Secured	Unsecured	Total																							
1. Related Parties **																										
(a) Subsidiaries																										
(b) Companies in the same group																										
(c) Other related parties																										

	2. Other than related parties			
	Total			
(6)	Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted): Please see note 3 below			
	Category	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)	
	1. Related Parties **			
	(a) Subsidiaries			
	(b) Companies in the same group			
	(c) Other related parties			
	2. Other than related parties			
	Total			

** As per Accounting Standard of ICAI (Please see Note 3)

(7) Other information

Particulars		Amount
(i)	Gross Non-Performing Assets	
	(a) Related parties	
	(b) Other than related parties	
(ii)	Net Non-Performing Assets	
	(a) Related parties	
	(b) Other than related parties	
(iii)	Assets acquired in satisfaction of debt	

Notes:

1. As defined in paragraph 2(1)(xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
2. Provisioning norms shall be applicable as prescribed in Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007
3. All Accounting Standards and Guidance Notes issued by ICAI are applicable including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up/fair value/NAV in respect of unquoted investments should be disclosed irrespective of whether they are classified as long term or current in (4) above.