



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA



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RBI/2024-2025/128

DOR.CAP.REC.No.68/21.01.002/2024-25

March 21, 2025

Dear Sir/Madam,

### **Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purposes**

Please refer to:

- a) Paragraphs 5.1.25 and 107.2 of the [Master Direction - Reserve Bank of India \(Non-Banking Financial Company \(NBFC\) – Scale Based Regulation\) Directions, 2023](#) - (*definition of Owned Fund and Common Equity Tier 1 (CET 1) capital*)
- b) Paragraph 4.1.28 of the [Master Direction - Non-Banking Financial Company - Housing Finance Company \(HFC\) \(Reserve Bank\) Directions, 2021](#) – (*definition of Owned Fund*)
- c) Paragraph 3.(1)(xxii) of the [Core Investment Companies \(Reserve Bank\) Directions, 2016](#) – (*definition of Owned Fund*)
- d) Paragraph 3(a)(xxv) of the [Mortgage Guarantee Companies \(Reserve Bank\) Directions, 2016](#) – (*definition of Owned Fund*)
- e) Paragraph 3.1(xi) of the [Master Direction – Reserve Bank of India \(Asset Reconstruction Companies\) Directions, 2024](#) – (*definition of Owned Fund*)
- f) Paragraph 3(iv) of the [Master Direction -Standalone Primary Dealers \(Reserve Bank\) Directions, 2016](#) – (*definition of Tier 1 capital*)

The instructions cited above require deducting the book value of intangible assets while calculating Owned Fund/ CET 1 capital/ Tier 1 capital.

2. In terms of Indian Accounting Standard (Ind AS) 116 - Leases, most leases will be reflected on a lessee's balance sheet as an obligation to make lease payments (a liability) and a related ROU asset (an asset). We have received references from various NBFCs (in their capacity as lessees) on the treatment of ROU assets for calculation of regulatory capital/ Owned Fund.

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हिंदी आसान है इसका प्रयोग बढ़ाइए

3. In this regard, it is clarified that regulated entities shall not be required to deduct an ROU asset (created in terms of Ind AS 116-Leases) from Owned Fund/ CET 1 capital/ Tier 1 capital (as the case may be), provided the underlying asset being taken on lease is a tangible asset. The ROU asset shall be risk-weighted at 100 per cent, consistent with the risk weight applied historically to the owned tangible assets.

4. The above revisions/changes have been incorporated in the respective Master Directions, as [detailed](#) in Annexure 1 to Annexure to 6 below.

### **Applicability**

5. This circular is applicable, with immediate effect, to all NBFCs (including HFCs) and Asset Reconstruction Companies implementing Companies (Indian Accounting Standards) Rules, 2015.

Yours faithfully,

(Usha Janakiraman)  
Chief General Manager-in-Charge

**Master Direction - Reserve Bank of India (Non-Banking Financial Company (NBFC) – Scale Based Regulation) Directions, 2023**

Extant paragraph	Amended paragraph
<p>5.1.25 “Owned Fund” means aggregate of</p> <p>(i) paid up equity capital,</p> <p>(ii) preference shares which are compulsorily convertible into equity,</p> <p>(iii) free reserves,</p> <p>(iv) balance in share premium account and</p> <p>(v) capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset;</p> <p>as reduced by</p> <p>(vi) accumulated loss balance,</p> <p>(vii) book value of intangible assets and</p> <p>(viii) deferred revenue expenditure, if any.</p>	<p>5.1.25 “Owned Fund” means aggregate of</p> <p>(i) paid up equity capital,</p> <p>(ii) preference shares which are compulsorily convertible into equity,</p> <p>(iii) free reserves,</p> <p>(iv) balance in share premium account and</p> <p>(v) capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset;</p> <p>as reduced by</p> <p>(vi) accumulated loss balance,</p> <p>(vii) book value of intangible assets and</p> <p>(viii) deferred revenue expenditure, if any.</p> <p><a href="#"><u>NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.</u></a></p>
<p>107.2 .....</p> <p>(ix) The following regulatory adjustments/deductions shall be applied in the calculation of CET 1 capital [i.e., to be deducted from the sum of items (i) to (viii)]:</p> <p>(a) Goodwill and other intangible assets:</p> <p>(i) Goodwill and all other intangible assets should be deducted from CET 1 capital.</p> <p>(ii) The full amount of the intangible assets is to be deducted net of any associated deferred tax liabilities which would be extinguished if the intangible assets become</p>	<p>107.2 .....</p> <p>(ix) The following regulatory adjustments/deductions shall be applied in the calculation of CET 1 capital [i.e., to be deducted from the sum of items (i) to (viii)]:</p> <p>(a) Goodwill and other intangible assets:</p> <p>(i) Goodwill and all other intangible assets should be deducted from CET 1 capital.</p> <p>(ii) The full amount of the intangible assets is to be deducted net of any associated deferred tax liabilities which would be extinguished if the intangible assets become</p>

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**Master Direction - Non-Banking Financial Company - Housing Finance Company  
(Reserve Bank) Directions, 2021**

<b>Extant paragraph</b>				<b>Amended paragraph</b>			
4.1.28 “Owned Fund” means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves including 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.				4.1.28 “Owned Fund” means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves including 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.  <a href="#">HFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.</a>			
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Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016

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<p>3.(1)(xxii) "owned funds" 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;</p>	<p>3.(1)(xxii) "owned funds" 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;</p> <p><a href="#">NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.</a></p>												
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Master Directions - Mortgage Guarantee Companies (Reserve Bank) Directions, 2016

Extant paragraph	Amended paragraph																		
<p>3(a)(xxv) "owned fund" means paid up equity capital, free reserves including contingency reserves maintained as per paragraph 18 of the Guidelines on Registration and Operations of Mortgage Guarantee Company, 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;</p>	<p>3(a)(xxv) "owned fund" means paid up equity capital, free reserves including contingency reserves maintained as per paragraph 18 of the Guidelines on Registration and Operations of Mortgage Guarantee Company, 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;</p> <p><a href="#">NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.</a></p>																		
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**Master Direction – Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024**

Extant paragraph	Amended paragraph								
<p>3.1 (xi) “Owned fund” means the aggregate of</p> <ol style="list-style-type: none"> <li>paid up equity capital;</li> <li>paid up preference capital, to the extent it is compulsorily convertible into equity capital;</li> <li>free reserves (excluding revaluation reserve);</li> <li>credit balance in profit and loss account;</li> </ol> <p>as reduced by-</p> <ol style="list-style-type: none"> <li>the debit balance on the profit and loss account;</li> <li>miscellaneous expenditure (to the extent not written off or adjusted);</li> <li>book value of intangible assets;</li> <li>under/ short provision against NPA/ diminution in value of investments;</li> <li>over recognition of income, if any; and</li> <li>other deductions required on account of the items qualified by the auditors in their report on the financial statements.</li> </ol>	<p>3.1 (xi) “Owned fund” means the aggregate of</p> <ol style="list-style-type: none"> <li>paid up equity capital;</li> <li>paid up preference capital, to the extent it is compulsorily convertible into equity capital;</li> <li>free reserves (excluding revaluation reserve);</li> <li>credit balance in profit and loss account;</li> </ol> <p>as reduced by-</p> <ol style="list-style-type: none"> <li>the debit balance on the profit and loss account;</li> <li>miscellaneous expenditure (to the extent not written off or adjusted);</li> <li>book value of intangible assets;</li> <li>under/ short provision against NPA/ diminution in value of investments;</li> <li>over recognition of income, if any; and</li> <li>other deductions required on account of the items qualified by the auditors in their report on the financial statements.</li> </ol> <p><a href="#">NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.</a></p>								
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Master Direction - Standalone Primary Dealers (Reserve Bank) Directions, 2016

Extant paragraph	Amended paragraph																		
<p>3(iv) Tier-I capital means paid-up capital, statutory reserves and other disclosed free reserves. Investment in subsidiaries (where applicable), intangible assets, losses in current accounting period, deferred tax asset and losses brought forward from previous accounting periods will be deducted from the Tier-I capital.</p>	<p>3(iv) Tier-I capital means paid-up capital, statutory reserves and other disclosed free reserves. Investment in subsidiaries (where applicable), intangible assets*, losses in current accounting period, deferred tax asset and losses brought forward from previous accounting periods will be deducted from the Tier-I capital.</p> <p><a href="#">NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.</a></p>																		
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