भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2014-15/520
DNBR (PD) CC.No. 024/ 03.10.001/ 2014-15 **March 27, 2015**

All NBFCs (excluding Primary Dealers)

Dear Sirs,

Revised Regulatory Framework for NBFCs

Please refer to the revised regulatory framework issued vide DNBR (PD) CC.No. 002/ 03.10.001/ 2014-15 dated November 10, 2014 (the circular). At para 14 of the circular it was mentioned that the Notifications in this regard shall follow.

2. In this connection, the following Notifications are enclosed for meticulous compliance

i. Notification No. DNBR. 007/ CGM (CDS) -2015 dated March 27, 2015 amending the Net Owned Fund requirements.
ii. Non-Systemically Important Non-Banking financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 issued vide Notification No. DNBR. 008/ CGM (CDS) -2015 dated March 27, 2015.
iii. Systemically Important Non-Banking financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 issued vide Notification No. DNBR. 009/ CGM (CDS) -2015 dated March 27, 2015.
iv. Notification No. DNBR. 010/ CGM (CDS) -2015 dated March 27, 2015 amending the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
v. Notification No. DNBR. 011/ CGM (CDS) -2015 dated March 27, 2015 amending the Non-Banking Financial (Deposit Accepting or Holding) Prudential Norms (Reserve Bank) Directions, 2007.

vi. Notification No. DNBR. 012/ CGM (CDS) -2015 dated March 27, 2015 amending the Non-Banking Financial Company – Factor (Reserve Bank) Directions, 2012.

3. It may be emphasised that the changes made vide above notifications/ amending notifications are only that corresponding to the circular.

Yours faithfully

(C D Srinivasan)
Chief General Manager

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI 400 005

Notification No.DNBR.007/ CGM (CDS) -2015 dated March 27, 2015

In exercise of the powers under clause (b) of sub-section (1) of section 45 –IA of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and all the powers enabling it in that behalf, the Reserve Bank of India, in supersession of Notification No. 132/ CGM (VSNM) -99 dated April 20, 1999, hereby specifies two hundred lakhs rupees as the net owned fund required for a non-banking financial company to commence or carry on the business of non-banking financial institution.

Provided that a non-banking financial company holding a certificate of registration issued by the Reserve Bank of India and having net owned fund of less than two hundred lakhs of rupees, may continue to carry on the business of non-banking financial institution, if such company achieves net owned fund of, -

i) one hundred lakhs of rupees before April 1, 2016; and
ii) two hundred lakhs of rupees before April 1, 2017

(C D Srinivasan)
Chief General Manager

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI 400 005

NOTIFICATION No.DNBR.008/ CGM (CDS) - 2015 dated March 27, 2015

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 Notification No. DNBS. 193/ DG(VL)-2007 dated February 22, 2007 gives the Directions hereinafter specified.

Short title, commencement and applicability of the Directions:

1. (1) These Directions shall be known as the **"Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015**".

(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), (iv), (v), (vi) and (vii) hereinafter, shall apply to:

every non-banking financial company not accepting/ holding public deposits which is non-systemically important as defined in para 2 (xxviii) of these directions.

“Provided that para 16 of these directions shall be applicable only to NBFC-MFIs as defined in the Non-Banking Financial Company- Micro Finance Institutions (Reserve Bank) Directions 2011 and Infrastructure Finance Companies as defined at clause 2(xi) of these Directions”.

(ii) These directions except para 15 shall not apply to a non-deposit taking non-banking financial company having asset size of less than Rs. 500 crore

Provided that, it does not accept/ hold any public funds.

(iii) These Directions, except the provisions of paragraph 26 shall not apply to non-banking financial company being a Government company as defined under clause (45) of Section 2 of the Companies Act, 2013 (18 of 2013) and not accepting / holding public deposit.*

(iv) These Directions shall not apply to a non-banking financial company being a Core Investment Company referred to in the Core Investment Companies (Reserve Bank) Directions, 2011 (hereinafter referred to as CIC Directions), which is not a systemically important Core Investment Company as defined in clause (h) of sub-paragraph (1) of paragraph 3 of the CIC Directions.

(vi) The provisions of paragraphs 15, 16 and 17 of these Directions shall not apply to a Systemically Important Core Investment Company (between asset size Rs. 100 crore and Rs. 500 crore) as defined in clause (h) of sub-paragraph (1) of paragraph 3 of the CIC Directions, 2011,.

(vii) The provisions of paragraph 8, 9 and 17 of these Directions shall not apply to an NBFC-MFI as defined in the Non-Banking Financial Company- Micro Finance Institutions (Reserve Bank) Directions, 2011.

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) "companies in the group" means an arrangement involving two or more entities related to each other through any of the following relationships: Subsidiary –

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*Government Companies were advised vide DNBS.PD/ CC.No. 86/ 03.02.089 /2006-07 dated December 12, 2006 to submit a road map for compliance with the various elements of the NBFC regulations, in consultation with the Government, and submit the same to the Reserve Bank (Department of Non Banking Supervision – (DNBS) parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above."

(iv) "conduct of business regulations" means the directions issued by the Bank from time to time on Fair Practices Code and Know Your Customer guidelines.

(v) "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;

(vi) "customer interface" means interaction between the NBFC and its customers while carrying on its NBFI business.

(vii) "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;

(viii) "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;

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

(x) “hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt;

(xi) “Infrastructure Finance Company” means a non-deposit taking NBFC that fulfills the criteria mentioned below:

(a) a minimum of 75 per cent of its total assets should be deployed in “infrastructure loans”;

(b) Net owned funds of Rs. 300 crore or above;

(c) minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA or equivalent rating by any other accrediting rating agencies;

(d) CRAR of 15 percent (with a minimum Tier I capital of 10 percent)

A credit facility extended by lenders (i.e. NBFCs) to a borrower for exposure in the following infrastructure sub-sectors will qualify as "Infrastructure lending”.

Sr. No.	**Category**	**Infrastructure sub-sectors**	
1.	Transport	i	Roads and bridges
		ii	Ports[1]
		iii	Inland Waterways
		iv	Airport
		v	Railway Track, tunnels, viaducts, bridges[2]
		vi	Urban Public Transport (except rolling stock in case of urban road transport)
2.	Energy	i	Electricity Generation
		ii	Electricity Transmission
		iii	Electricity Distribution
		iv	Oil pipelines
		v	Oil / Gas / Liquefied Natural Gas (LNG) storage facility[3]
		vi	Gas pipelines[4]
3.	Water & Sanitation	i	Solid Waste Management
		ii	Water supply pipelines
		iii	Water treatment plants
		iv	Sewage collection, treatment and disposal system
		v	Irrigation (dams, channels, embankments etc)

		vi	Storm Water Drainage System
		vii	Slurry Pipelines
4.	Communication	i	Telecommunication (Fixed network)[5]
		ii	Telecommunication towers
		iii	Telecommunication & Telecom Services
5.	Social and Commercial Infrastructure	i	Education Institutions (capital stock)
		ii	Hospitals (capital stock)[6]
		iii	Three-star or higher category classified hotels located outside cities with population of more than 1 million
		iv	Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets
		v	Fertilizer (Capital investment)
		vi	Post harvest storage infrastructure for agriculture and horticultural produce including cold storage
		vii	Terminal markets
		viii	Soil-testing laboratories
		ix	Cold Chain[7]
		x.	Hotels with project cost[8] of more than Rs.200 crores each in any place in India and of any star rating.
		xi.	Convention Centres with project cost[8] of more than Rs.300 crores each

Notes

1	Includes Capital Dredging
2	Includes supporting terminal infrastructure such as loading/ unloading terminals, stations and buildings
3	Includes strategic storage of crude oil
4	Includes city gas distribution network
5	Includes optic fibre/ cable networks which provide broadband/ internet
6	Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres
7	Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.
8.	Applicable with prospective effect from the date of this circular and available for eligible projects for a period of three years; Eligible costs exclude cost of

	land and lease charges but include interest during construction.

(xii) "Leverage Ratio" means the total Outside Liabilities/ Owned Funds.

(xiii) "NBFC-MFI" means a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

i. Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore).

ii. Not less than 85% of its net assets are in the nature of "qualifying assets."

For the purpose of ii. above, "Net assets" are defined as total assets other than cash and bank balances and money market instruments;

"Qualifying assets" shall mean a loan which satisfies the following criteria:-

i. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000;

ii. loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles;

iii. total indebtedness of the borrower does not exceed Rs. 50,000;

iv. tenure of the loan not to be less than 24 months for loan amount in excess of Rs.15,000 with prepayment without penalty;

v. loan to be extended without collateral;

vi. aggregate amount of loans, given for income generation, is not less than 70 per cent of the total loans given by the MFIs;

vii. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.

(xiv) "Non-Banking Financial Company - Factor' means a non-banking financial company as defined in clause (*f*) of section 45-I of the RBI Act, 1934 having financial assets in the factoring business at least to the extent of 50 percent of its total assets and its income derived from factoring business is not less than 50 percent of its gross income and has been granted a certificate of registration under sub-section (1) of Section 3 of the Factoring Regulation Act, 2011.

(xv) "Non-Operative Financial Holding Company" (NOFHC) means a non-deposit taking NBFC referred to in the[1]**"Guidelines for Licensing of New Banks in the Private Sector"** issued by the Reserve Bank, which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by Reserve Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

(xvi) "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;

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

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

(xix) "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

[1] http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=28191

asset as adjusted by the balance of lease adjustment account.

(xx) "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;

(xxi) "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;

(xxii) “outside liabilities” means total liabilities as appearing on the liabilities side of the balance sheet excluding 'paid up capital' and 'reserves and surplus', instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue but including all forms of debt and obligations having the characteristics of debt, whether created by issue of hybrid instruments or otherwise, and value of guarantees issued, whether appearing on the balance sheet or not.

(xxiii) “public funds” means “funds raised directly or indirectly through public deposits, commercial papers, debentures, inter-corporate deposits and bank finance but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue”.

(xxiv) “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;

(xxv) “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 27 of these Directions;

(xxvi) "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:

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

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

(xxvii) "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;

(xxviii) "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. 500 crore and above as shown in the last audited balance sheet;

(xxix) "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; and perpetual debt instruments issued by a non-deposit taking non-banking financial company with assets between Rs. 100 crore and Rs. 500 crore as per the last audited balance sheet in each year to the extent it does not exceed 15% of the aggregate Tier I Capital of such company as on March 31 of the previous accounting year;

(xxx) "Tier II capital" includes the following:

(a) preference shares other than those which are compulsorily convertible into equity;

(b) revaluation reserves at discounted rate of fifty five per cent;

(c) General Provisions (including that for Standard Assets) 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;

(e) subordinated debt; and

(f) perpetual debt instruments issued by a non-deposit taking non-banking financial company with assets between Rs. 100 crore and Rs. 500 crore as per the last audited balance sheet which is in excess of what qualifies for Tier I Capital,

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

(2) Other words or expressions used and not defined in these directions but 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 meanings respectively assigned to them under that Act or Directions. Any words or expressions used and not defined in these directions or the RBI Act or any of the Directions issued by the RBI, shall have the meanings respectively assigned to them under the Companies Act, 2013 (18 of 2013).

Income recognition

3. (1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount/ hire charges/ lease rentals 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.

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 in so far 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) In case of inter-class transfer:

(i) there shall be no such transfer on ad-hoc basis;

(ii) 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) (a) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.

(i) equity shares,

(ii) preference shares,

(iii) debentures and bonds,

(iv) Government securities including treasury bills,

(v) units of mutual fund, and

(vi) others.

(b) 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 breakup value, whichever is lower. However, non-banking financial companies may substitute fair value for the breakup 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.

<u>Explanation-</u> 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.

<u>Need for Policy on Demand/Call Loans</u>

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	Per cent 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 per cent of total outstanding shall be made.

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

(i) Hire purchase assets - 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 per cent of the net book value
(c) Where hire charges or lease rentals are overdue for more than 24 months but upto 36 months	40 per cent of the net book value
(d) where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 per cent of the net book value
(e) where hire charges or lease rentals are overdue for more than 48 months	100 per cent 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) (xxv) (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 11.

(6) All financial leases written on or after April 1, 2001 attract the provisioning requirements as applicable to hire purchase assets.

(7) In case of NBFC-MFIs, if the advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion

should be provided for as per the extant guidelines on provisioning for non-performing advances.

Provision for Standard Assets

10. Every Non-Banking Financial Company shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

Disclosure in the balance sheet

11. (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.

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. Every non-banking financial company shall finalise its balance sheet within a period of 3 months from the date to which it pertains.

Schedule to the balance sheet

13. Every non-banking financial company shall append to its balance sheet prescribed under the Companies Act, 2013, the particulars in the schedule as set out in Annex I.

Transactions in Government securities

14. (1) Every non-banking financial company shall undertake transactions in Government securities through its CSGL account or its demat account.

(2) The non-banking financial company shall not undertake any transaction in government security in physical form through any broker.

Submission of a certificate from Statutory Auditor to the Bank

15. (1) Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the [2][business] of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. 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, within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year. Such certificate shall also indicate the asset/ income

[2]It was clarified in DNBS (PD) C.C. No. 81/03.05.002/2006-07 dated October 19, 2006, that the business of non-banking financial institution (NBFI) means a company engaged in the business of financial institution as contained in Section 45I(a) of the RBI Act, 1934. For this purpose, the definition of 'Principal Business' given, vide Press Release 1998-99/1269 dated April 8, 1999 may be followed.

pattern of the non-banking financial company for making it eligible for classification as Asset Finance Company, Investment Company or Loan Company.

(2) For an NBFC-MFI, such Certificate should also indicate that the company fulfills all conditions stipulated to be classified as an NBFC-MFI in the notification DNBS.PD.No.234/ CGM(US)-2011 dated December 02, 2011.

(3) For an NBFC-Factor, such Certificate shall indicate the requirement of holding the certificate under Section 3 of the Factoring Act. The certificate shall also indicate the percentage of factoring assets and income, that it fulfills all conditions stipulated under the Act to be classified as an NBFC-Factor and compliance to minimum capitalization norms, if FDI has been received.

Requirement as to capital adequacy

16. (1) Every NBFC-MFI and Infrastructure Finance Company (IFC) shall maintain, a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than fifteen 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 of an NBFC-MFI, at any point of time, shall not exceed one hundred per cent of Tier I capital.

(3)The Tier I capital of an IFC, at any point of time, shall not be less than 10%.

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) Investments	
(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) Current assets	
(a) Stock on hire (net book value)	100
(b) Inter corporate 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) Fixed Assets(net of depreciation)	
(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.

(4) For loans guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) NBFC-MFIs may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as per extant guidelines.

(5) Norms for Infrastructure loans

(a) 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.

(b) For Infrastructure Finance Companies, the risk weight for assets covering PPP and post commercial operations date (COD) projects which have completed at least one year of satisfactory commercial operations shall be at 50 percent.

<u>Off-balance sheet items</u>

A. General

NBFCs will calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure will be calculated by means of a two-step process:

(a) the notional amount of the transaction is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and

(b) the resulting credit equivalent amount is multiplied by the risk weight applicable viz. zero percent for exposure to Central Government/ State Governments, 20 percent for exposure to banks and 100 percent for others.

B. Non-market-related off- balance sheet items

i. The credit equivalent amount in relation to a non-market related off-balance sheet item will be determined by multiplying the contracted amount of that particular transaction by the relevant credit conversion factor (CCF).

<table>
<tr><th>Sr. No.</th><th>Instruments</th><th colspan="2">Credit Conversion Factor</th></tr>
<tr><td>i.</td><td>Financial & other guarantees</td><td colspan="2">100</td></tr>
<tr><td>ii.</td><td>Share/debenture underwriting obligations</td><td colspan="2">50</td></tr>
<tr><td>iii.</td><td>Partly-paid shares/debentures</td><td colspan="2">100</td></tr>
<tr><td>iv.</td><td>Bills discounted/rediscounted</td><td colspan="2">100</td></tr>
<tr><td>v.</td><td>Lease contracts entered into but yet to be executed</td><td colspan="2">100</td></tr>
<tr><td>vi.</td><td>Sale and repurchase agreement and asset saleswith recourse, where the credit risk remains with the NBFC.</td><td colspan="2">100</td></tr>
<tr><td>vii.</td><td>Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.</td><td colspan="2">100</td></tr>
<tr><td>viii.</td><td>Lending of NBFC securities or posting of securities as collateral by NBFC, including instances where these arise out of repo style transactions.</td><td colspan="2">100</td></tr>
<tr><td>ix.</td><td>Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of
up to one year
over one year</td><td colspan="2">20
50</td></tr>
<tr><td>x.</td><td>[Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower’s credit worthiness.</td><td colspan="2">0</td></tr>
<tr><td rowspan="2">xi..</td><td colspan="3">Take-out Finance in the books of taking-over institution</td></tr>
<tr><td>(i)</td><td>Unconditional take-out</td><td>100</td></tr>
</table>

		finance	
	(ii)	Conditional take-out finance	50
		Note: As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.	
xii.	Commitment to provide liquidity facility for securitization of standard asset transactions	100	
xiii.	Second loss credit enhancement for securitization of standard asset transactions provided by third party	100	
xiv.	Other contingent liabilities (To be specified)	50	

Note:

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

ii. Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of NBFC's on-balance sheet credit exposure.

For example:

A term loan of Rs. 700 cr is sanctioned for a large project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – Rs. 150 cr in Stage I, Rs. 200 cr in Stage II and Rs. 350 cr in Stage III, where the borrower needs the NBFC's explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already Rs. 50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be Rs.100 cr. If Stage I is scheduled to be completed within one year, the CCF will be 20 percent and if it is more than one year then the applicable CCF will be 50 per cent.

C. Market Related Off-Balance Sheet Items

i. NBFCs should take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo / reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures.

ii. The credit risk on market related off-balance sheet items is the cost to an NBFC of replacing the cash flow specified by the contract in the event of counterparty default. This would depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.

iii. Market related off-balance sheet items would include:

(a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

(b) foreign exchange contracts, including contracts involving gold, - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;

(c) Credit Default Swaps; and

(d) any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.

iv. Exemption from capital requirements is permitted for -

(a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and

(b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.

v. The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.

vi. A CCF of 100 per cent will be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure will be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight will be 20 per cent and for other CCPs, risk weight will be 50 percent.

vii. The total credit exposure to a counter party in respect of derivative transactions should be calculated according to the current exposure method as explained below:

D. Current Exposure Method

The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of a) current credit exposure and b) potential future credit exposure of the contract.

(a) Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty should not be netted). The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market.

(b) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives		
Credit Conversion Factors (%)		
Interest Rate Contracts		**Exchange Rate Contracts & Gold**
One year or less	**0.50**	**2.00**
Over one year to five years	**1.00**	**10.00**
Over five years	**3.00**	**15.00**

i. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.

ii. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.

iii. No potential future credit exposure would be calculated for single currency floating / floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

iv. Potential future exposures should be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the NBFC would have an effective notional amount of USD 2 million.

E. Credit conversion factors for Credit Default Swaps(CDS):

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may be held in current category or permanent category. The capital charge for these exposures will be as under:

(i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection will be permitted to be recognised to a maximum of 80% of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20% of the applicable capital charge. This can be achieved by taking the exposure value at 20% of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others."

Leverage Ratio

17. The leverage ratio of every Non-Banking Financial Company shall not be more than 7 at any point of time, with effect from March 31, 2015.

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

18. (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.

19. Loans against security of single product - gold jewellery

(a) All NBFCs shall

(i) maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery;

Provided that the value of gold jewellery for the purpose of determining the maximum permissible loan amount shall be the intrinsic value of the gold content therein and no other cost elements shall be added thereto. The intrinsic value of the gold jewellery shall be arrived at as detailed in paragraph 21(1) of the Directions.

(ii) disclose in their balance sheet the percentage of such loans to their total assets.

(b) NBFCs should not grant any advance against bullion / primary gold and gold coins. NBFCs should not grant any advance for purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of Exchange Traded Funds (ETF) and units of gold mutual fund.

Verification of the Ownership of Gold

20.(1) Where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs shall keep a record of the verification of the ownership of the jewellery. The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document shall be prepared to explain how the ownership of the jewellery has been determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams.

(2) NBFCs shall have an explicit policy in this regard as approved by the Board in their overall loan policy.

Standardization of Value of Gold accepted as collateral in arriving at LTV Ratio

21. (1)The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by the following method:

i. The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by The Bombay Bullion Association Ltd. (BBA).

ii. If the purity of the gold is less than 22 carats, the NBFC should translate the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

iii. NBFC, while accepting the gold as collateral should give a certificate to the borrower on their letterhead, of having assayed the gold and stating the purity (in terms of carats) and the weight of the gold pledged.

NBFCs may have suitable caveats to protect themselves against disputes during redemption, but the certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction.

(2)**Auction**

a. The auction should be conducted in the same town or taluka in which the branch that has extended the loan is located.

b. While auctioning the gold the NBFC should declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments should not be less than 85% of the previous 30 day average closing price of 22 carat gold as declared by The Bombay Bullion Association Ltd. (BBA) and value of the jewellery of lower purity in terms of carats should be proportionately reduced.

c. It shall be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding should be payable to the borrower.

d. NBFCs shall disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction.

Safety and security measures to be followed by Non-Banking Financial Companies lending against collateral of gold jewellery

22. (1) Non-Banking Financial Companies, which are in the business of lending against collateral of gold jewellery, shall ensure that necessary infrastructure and facilities are put in place, including safe deposit vault and appropriate security measures for operating the vault, in each of its branches where gold jewellery is accepted as collateral. This is required to safeguard the gold jewellery accepted as collateral and to ensure convenience of borrowers.

(2) No new branch/es shall be opened without suitable arrangements for security and for storage of gold jewellery, including safe deposit vault.

23. Loans against security of shares

All NBFCs with asset size of ₹.100 crore and above shall,

(i) maintain a Loan to Value (LTV) ratio of 50% for loans granted against the collateral of shares, and

(ii) accept only Group 1 securities (specified in SMD/ Policy/ Cir-9/ 2003 dated March 11, 2003 as amended from time to time, issued by SEBI) as collateral for loans of value more than ₹.5 lakh, subject to review by the Bank.

24. Concentration of credit/investment

An NBFC which is held by an NOFHC shall not

i. have any exposure (credit and investments including investments in the equity / debt capital instruments) to the Promoters/ Promoter Group entities or individuals associated with the Promoter Group or the NOFHC;

ii. make investment in the equity/ debt capital instruments in any of the financial entities under the NOFHC;

iii. invest in equity instruments of other NOFHCs.

Explanation: For the purposes of this Paragraph, the expression, 'Promoter' and 'Promoter Group' shall have the meanings assigned to those expressions in Annex 1 to the "Guidelines for Licensing of New Banks in the Private Sector" issued by Reserve Bank (Annex II).

Opening Branches exceeding one thousand in number

25. Non-Banking Financial Company shall obtain prior approval of the Reserve Bank to open branches exceeding 1000. However NBFCs which already have more than 1000 branches may approach the Bank for prior approval for any further branch expansion. Besides, no new branches will be allowed to be opened without the facilities for storage of gold jewellery and minimum security facilities for the pledged gold jewellery.

Information with respect to change of address, directors, auditors, etc. to be submitted

26. Every non-banking financial company 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.

NBFCs not to be partners in partnership firms

27. (1) No non-banking financial company shall contribute to the capital of a partnership firm or become a partner of such firm.

(2) A non-banking financial company, which had already contributed to the capital of a partnership firm or was a partner of a partnership firm shall seek early retirement from the partnership firm.

(3) In this connection it is further clarified that;

a) Partnership firms mentioned above shall also include Limited Liability Partnerships (LLPs).

b) Further, the aforesaid prohibition shall also be applicable with respect to Association of persons; these being similar in nature to partnership firms

NBFCs which had already contributed to the capital of a LLP/ Association of persons or was a partner of a LLP or member of an Association of persons are advised to seek early retirement from the LLP/ Association of persons.

Norms for restructuring of advances

28. Norms for restructuring of advances by NBFCs shall be on the lines of the norms specified by the Reserve Bank of India for banks as modified and set forth in Annex-III.

Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries -

29. Norms for Flexible Structuring of Long Term project loans to Infrastructure and Core Industries by NBFCs shall be on the lines of the norms specified by the Reserve Bank of India for banks as modified and set forth in Annex-IV.

Submission of 'Branch Info' Return

30. With effect from June 30, 2013, all Non-deposit taking NBFCs having total assets more than Rs.50 crore, shall submit a quarterly return on Branch Information within ten days of the expiry of the relative quarter as on March 31, June 30 ,September 30 and December 31 every year, in the format available in the Annex V, to the Regional Office of the Department of Non-Banking Supervision of the Reserve Bank of India, under whose jurisdiction the registered office of the company is located. The return shall be submitted online in the format available on https://cosmos.rbi.org.in.

Exemptions

31. 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

32. 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

33. (1) The Non-Banking Financial Companies (Non-Deposit Accepting or Holding) Prudential Norms (Reserve Bank) Directions, 2007 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.

(C D Srinivasan)
Chief General Manager

Annex I

Schedule to the

Balance Sheet of a non-deposit taking non-banking financial company

(Rs. in lakhs)

	Particulars		
	Liabilities side :		
(1)	**Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not paid:**	Amount out-standing	Amount overdue
	(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		

	Assets side :	
		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) 2. <u>Unquoted</u> : (i) Shares : (a) Equity	

	(b) Preference	
	(ii) Debentures and Bonds	
	(iii) Units of mutual funds (iv) Government Securities (v) Others (please specify) Long Term investments : 1. Quoted : (i) Shares : (a) Equity (b) Preference (ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify) 2. Unquoted : (i) Shares : (a) Equity (b) Preference (ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify)	

(5)	**Borrower group-wise classification of assets financed as in (2) and (3) above :** Please see Note 2 below			
	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-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 whichever is applicable.
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.

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Annex II

Guidelines for Licensing of New Banks in the Private Sector

Definitions

I. Promoter

Promoter means, the person who together with his relatives (as defined in Section 6 of the Companies Act, 1956), by virtue of his ownership of voting equity shares, is in effective control of the NOFHC, and includes, wherever applicable, all entities which form part of the Promoter Group.

II. Promoter Group

"Promoter Group" includes :

(i) the promoter;

(ii) relatives of the promoter as defined in Section 6 of Companies Act 1956; and

(iii) in case promoter is a body corporate :

(A) a subsidiary or holding company of such body corporate;

(B) any body corporate in which the promoter holds ten per cent or more of the equity share capital or which holds ten per cent or more of the equity share capital of the promoter;

(C) any body corporate in which a group of individuals or companies or combinations thereof which hold twenty per cent or more of the equity share capital in that body corporate also holds twenty per cent or more of the equity share capital of the promoter;

(D) Joint venture (as defined in terms of AS 23) with the promoter;

(E) Associate (as defined in terms of AS 27) of the promoter;

(F) Related party (as defined in terms of AS 18) of the promoter; and

(iv) in case the promoter is an individual :

(A) any body corporate in which ten per cent or more of the equity share capital is held by the promoter or a relative of the promoter or a firm or Hindu Undivided Family in which the promoter or any one or more of his immediate relative is a member;

(B) any body corporate in which a body corporate as provided in (A) above holds ten per cent or more, of the equity share capital;

(C) any Hindu Undivided Family or firm in which the aggregate shareholding of the promoter and his immediate relatives is equal to or more than ten per cent of the total; and

(v) all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus[21] under the heading "shareholding of the promoter group";

(vi) Entities sharing a common brand name with entities discussed in A, B, C, D E, F where the promoter is a body corporate and A, B, C where the promoter is an individual;

Provided that a financial institution, scheduled bank, foreign institutional investor or mutual fund shall not be deemed to be promoter group merely by virtue of the fact that ten per cent or more of the equity share capital of the promoter is held by such institution.

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Annex-III

Norms on Restructuring of Advances by NBFCs

1. These prudential norms are applicable to all restructurings including those under CDR Mechanism. The institutional / organizational framework for CDR Mechanism and SME Debt Restructuring Mechanism will be as applicable to banks as per Annex-4 of DBOD.No.BP.BC.1/21.04.048/2013-14 dated July 1, 2013. The same is given in Appendix-3.

2. Key Concepts

Key concepts used in these norms are defined in Appendix-2.

3. Projects under implementation

3.1 For all projects financed by the NBFCs, the 'Date of Completion' and the 'Date of Commencement of Commercial Operations' (DCCO), of the project should be clearly spelt out at the time of financial closure of the project and the same should be formally documented. These should also be documented in the appraisal note by the NBFC during sanction of the loan.

3.2 **Project Loans**

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by NBFCs. Accordingly, the following asset classification norms would apply to the project loans before commencement of commercial operations.

For this purpose, all project loans have been divided into the following two categories :

(a) Project Loans for infrastructure sector

(b) Project Loans for non-infrastructure sector

For the purpose of these Directions, 'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Further, Infrastructure Sector is as defined in the extant Prudential Norms Directions for NBFCs.

3.3. **Project Loans for Infrastructure Sector**

(i) A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(ii) A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(iii) If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original DCCO, it can be retained as a standard asset if the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

(a) ***Infrastructure Projects involving court cases***

Up to another 2 years (beyond the existing extended period of 2 years, as prescribed in para 3.3 (ii), i.e. total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) ***Infrastructure Projects delayed for other reasons beyond the control of promoters***

Up to another 1 year (beyond the existing extended period of 2 years, as prescribed in para 3.3 (ii), i.e. total extension of 3 years), in other than court cases.

(iv) It is re-iterated that the dispensation in para 3.3 (iii) is subject to adherence to the provisions regarding restructuring of accounts which would inter alia require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be :

(a) In cases where there is moratorium for payment of interest, NBFCs should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

(b) NBFCs should maintain following provisions on such accounts as long as these are classified as standard assets in addition to provision for diminution in fair value :

(v) For the purpose of these Directions, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of two years from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.25 per cent.

Particulars	**Provisioning Requirement**		
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	*	0.25 percent	
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay	Project loans restructured with effect from January 24, 2014 :		
	*	5.00 per cent - From the date of such restructuring till the revised DCCO or 2 years from the- date of restructuring, whichever is later.	
		Stock of project loans classified as restructured as on January 23, 2014 :	
		-	2.75 percent - with effect from March 31, 2014
		-	3.50 percent - with effect from March 31, 2015(spread over the four quarters of 2014-15)

		-	4.25 percent - with effect from March 31, 2016(spread over the four quarters of 2015-16)
		-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17)
	*	The above provisions will be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.	

(v) (a) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits as stated in above points and all other terms and conditions of the loan remained unchanged.

If deemed fit, NBFCs may extend DCCO beyond the respective time limits quoted at (iii)(a) to (b) above; however, in that case, NBFCs will not be able to retain the 'standard' asset classification status of such loan accounts.

(v)(b) In cases where NBFCs have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

In cases where the initial financial closure does not envisage such financing of cost overruns, NBFCs have been allowed to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at (iii)(a) to (b) above, without treating the loans as 'restructured asset' subject to the following conditions:

i) NBFCs may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

v) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

(vi) In case of infrastructure projects under implementation, where Appointed Date (as defined in the concession agreement) is shifted due to the inability of the Concession Authority to comply with the requisite conditions, change in date of commencement of commercial operations (DCCO) need not be treated as 'restructuring', subject to following conditions :

(a) The project is an infrastructure project under public private partnership model awarded by a public authority;

(b) The loan disbursement is yet to begin;

(c) The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender and;

(d) Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement.

3.4. **Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)**

(i) A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(ii) A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within one year from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(iii) In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of one year from the date of completion as determined at the time of financial closure, NBFCs can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts, provided the fresh DCCO does not extend beyond a period of two years from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of one year from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be :

(a) In cases where there is moratorium for payment of interest, NBFCs should not book income on accrual basis beyond one year from the original DCCO, considering the high risk involved in such restructured accounts.

(b) NBFCs should maintain following provisions on such accounts as long as these are classified as standard assets apart from provision for diminution in fair value due to extension of DCCO :

Particulars	**Provisioning Requirement**	
If the revised DCCO is within one year from the original DCCO prescribed at the time of financial closure	*	0.25 percent
If the DCCO is extended beyond one year and upto two years from the original	Project loans restructured with effect from January 24, 2014 :	
	*	5.00 per cent –From the date of restructuring

DCCO prescribed at the time of financial closure		for 2 years	
		Stock of Project loans classified as restructured as on January 23, 2014 :	
		-	2.75 per cent - with effect from March 31, 2014
		-	3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014- 15)
		-	4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015- 16)
		-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17).
	*	The above provisions will be applicable from the date of restructuring for 2 years.	

(iii) For the purpose of these guidelines, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.25 per cent.

(iv)(a) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits as stated in above points and all other terms and conditions of the loan remained unchanged.

If deemed fit, NBFCs may extend DCCO beyond the respective time limits quoted at (iii)(a) to (b) above; however, in that case, NBFCs will not be able to retain the 'standard' asset classification status of such loan accounts.

(iv)(b) In cases where NBFCs have specifically sanctioned a ‘standby facility’ at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

In cases where the initial financial closure does not envisage such financing of cost overruns, NBFCs have been allowed to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at (iii)(a) to (b) above, without treating the loans as ‘restructured asset’ subject to the following conditions:

i) NBFCs may fund additional ‘Interest During Construction’, which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

v) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

3.5. **Other Issues**

(i) Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if :

(a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

(b) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.

(c) The NBFC re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.

(d) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

(ii) Project Loans for Commercial Real Estate

For CRE projects mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO and there is no change in other terms and conditions except possible shift of the repayment schedule and servicing of the loan by equal or shorter duration compared to the period by which DCCO has been extended. Such CRE project loans will be treated as standard assets in all respects for this purpose without attracting the higher provisioning applicable for restructured standard assets. However, the asset classification benefit would not be available to CRE projects if they are restructured.

(iii) In all the above cases of restructuring where regulatory forbearance has been extended, the Boards of NBFCs should satisfy themselves about the viability of the project and the restructuring plan.

3.6. **Income recognition**

(i) NBFCs may recognise income on accrual basis in respect of the projects under implementation, which are classified as 'standard'.

(ii) NBFCs should not recognise income on accrual basis in respect of the projects under implementation which are classified as a 'substandard' asset. NBFCs may recognise income in such accounts only on realisation on cash basis.

Consequently, NBFCs which have wrongly recognised income in the past should reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognised as income in the previous year(s). As regards the regulatory treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' NBFCs should adopt the following :

(a) Funded Interest : Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring / rescheduling / renegotiation of terms of the loan agreement, should be done strictly on cash basis, only on realisation and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognised as income, a provision for an equal amount should also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognized as income, should be fully provided for.

(b) Conversion into equity, debentures or any other instrument : The amount outstanding converted into other instruments would normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision should be made for the amount of income so recognised to offset the effect of such income recognition. Such provision would be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments as per the valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified "current investment" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures should be treated as NPA, ab initio, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument should be recognised only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan would also be subject to the usual prudential valuation norms as applicable to such instruments.

4. General Principles and Prudential Norms for Restructured Advances

The principles and prudential norms laid down in this paragraph are applicable to all advances including the borrowers, who are eligible for special regulatory treatment for asset classification as specified in para 7.

4.1 **Eligibility criteria for restructuring of advances**

4.1.1 NBFCs may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.

4.1.2 NBFCs cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re- classification of an asset should not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it would be a matter of supervisory concern.

4.1.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the NBFC in deserving cases subject to customer agreeing to the terms and conditions.

4.1.4 No account will be taken up for restructuring by the NBFCs unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by NBFCs would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action. NBFCs should accelerate the recovery measures in respect of such accounts. The viability should be determined by the NBFCs based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters may include the Return on Capital

Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. As different sectors of economy have different performance indicators, it will be desirable that NBFCs adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability should be determined by the NBFCs based on the acceptable viability parameters and benchmarks for each parameter determined by them. The benchmarks for the viability parameters adopted by the CDR Mechanism are given in the Appendix-1. NBFCs may suitably adopt them with appropriate adjustments, if any, for specific sectors while restructuring of accounts in non-CDR cases.

4.1.5 Borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring.

4.1.6 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism, the lead bank in the case of SME Debt Restructuring Mechanism and the individual NBFCs in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

4.2 **Asset classification norms**

Restructuring of advances could take place in the following stages :

(a) before commencement of commercial production / operation;

(b) after commencement of commercial production / operation but before the asset has been classified as 'sub-standard';

(c) after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

4.2.1 The accounts classified as 'standard assets' should be immediately reclassified as 'sub-standard assets' upon restructuring.

4.2.2 The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

4.2.3 Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the NBFC should be upgraded only when all the outstanding loan / facilities in the account perform satisfactorily during the 'specified period' (Appendix - 2), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

4.2.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

4.2.5 Any additional finance may be treated as 'standard asset' during the specified period (Appendix - 2) under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'substandard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

4.2.6 If a restructured asset, which is a standard asset on restructuring is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion may be allowed to be upgraded to standard category after the specified period (Appendix - 2) in terms of the current restructuring package, subject to satisfactory performance.

4.3 **Income recognition norms**

Subject to provisions of paragraphs 4.2.5, 5.2 and 6.2, interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

4.4 **Provisioning norms**

4.4.1 Provision on restructured advances

(i) NBFCs will hold provision against the restructured advances as per the extant provisioning norms.

(ii) Restructured accounts classified as standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest / principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.

(iii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

(iv) The above-mentioned higher provision on restructured standard advances would be 5 per cent in respect of new restructured standard accounts (flow) with effect from January 24, 2014 and increase in a phased manner for the stock of restructured standard accounts as on January 23, 2014 as under :

* 2.75 per cent - with effect from March 31, 2014

* 3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15)

* 4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015-16

* 5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17

4.4.2 Provision for diminution in the fair value of restructured advances

(i) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the NBFC and will have impact on the NBFC's market value. It is, therefore, necessary for NBFCs to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision should be held in addition to the provisions as per existing provisioning norms as indicated in para 4.4.1 above, and in an account distinct from that for normal provisions.

For this purpose, the erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate i.e. the interest rate applicable to the borrower as per the loan agreement had the loan been serviced without any default, as applicable to the concerned borrower, as on the date of restructuring. Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate as applicable to the borrower as on the date of restructuring.

The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently by NBFCs in future. Further, it is reiterated that the provisions required as above arise due to the action of the NBFCs resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

(ii) The amount of principal converted into debt / equity instruments on restructuring would need to be held under 'current investments' and valued as per usual valuation norms. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt / equity has to be carried out separately. However, the total sacrifice involved for the NBFC would be NPV of the above portion plus valuation loss on account of conversion into debt / equity instruments.

NBFCs are therefore advised that they should correctly capture the diminution in fair value of restructured accounts as it will have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters (Ref. para 7.2.2.iv). Further, there should not be any effort on the part of NBFCs to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering. NBFCs are also advised to put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

(iii) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

(iv) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in the bare lending rate as applicable to the borrower. Consequently, NBFCs may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(i) If due to lack of expertise / appropriate infrastructure, an NBFC finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, NBFCs will have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five percent of the total exposure, in respect of all restructured accounts where the total dues to NBFC(s) are less than rupees one crore.

4.4.3 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

5. Prudential Norms for Conversion of Principal into Debt / Equity

5.1 **Asset classification norms**

A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt / equity instruments so created will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of these instruments would also be determined based on the subsequent asset classification of the restructured advance.

5.2 Income recognition norms

5.2.1 *Standard Accounts*

In the case of restructured accounts classified as 'standard', the income, if any, generated by these instruments may be recognised on accrual basis.

5.2.2 *Non- Performing Accounts*

In the case of restructured accounts classified as non-performing assets, the income, if any, generated by these instruments may be recognised only on cash basis.

5.3 Valuation and provisioning norms

These instruments should be held under 'current investments' and valued as per usual valuation norms. Equity classified as standard asset should be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available, the shares are to be valued at Re.1. Equity instrument classified as NPA should be valued at market value, if quoted, and in case where equity is not quoted, it should be valued at Re.1. Depreciation on these instruments should not be offset against the appreciation in any other securities held under the 'current investment' category.

6. Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

6.1 Asset classification norms

The FITL / debt or equity instrument created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL / debt or equity instruments would also be determined based on the subsequent asset classification of the restructured advance.

6.2 **Income recognition norms**

6.2.1 The income, if any, generated by these instruments may be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.

6.2.2 The unrealised income represented by FITL / Debt or equity instrument should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalisation)".

6.2.3 In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation, not exceeding the amount of interest converted into equity.

6.2.4 Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received will be recognised in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

6.3 **Valuation & Provisioning norms**

Valuation and provisioning norms would be as per para 5.3 above. The depreciation, if any, on valuation may be charged to the Sundry Liabilities (Interest Capitalisation) Account.

7. Special Regulatory Treatment for Asset Classification

7.1 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 4 above, will be available, in respect of restructuring of advances granted to infrastructure projects,non-infra projects and all advances restructured either under CDR mechanism / SME Debt Restructuring Mechanism and debt restructured in a consortium / multiple lending arrangement (except the following categories of advances), subject to compliance with certain conditions as enumerated in para 7.2 below :

i. Consumer and personal advances;

ii. Advances classified as Capital market exposures;

iii. Advances classified as commercial real estate exposures

The asset classification of these three categories of accounts as well as that of other accounts which do not comply with the conditions enumerated in para 7.2, will be governed by the prudential norms in this regard described in para4 above.

7.2 **Elements of special regulatory framework**

The special regulatory treatment has the following two components :

(i) Incentive for quick implementation of the restructuring package.

(ii) Retention of the asset classification of the restructured account in the pre-restructuring asset classification category.

7.2.1 ***Incentive for quick implementation of the restructuring package***

As stated in para 4.1.2, during the pendency of the application for restructuring of the advance with the NBFC, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the NBFC as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the NBFC in non-CDR cases :

(i) Within 120 days from the date of approval under the CDR Mechanism.

(ii) Within 120 days from the date of receipt of application by the NBFC in cases other than those restructured under the CDR Mechanism.

7.2.2 ***Asset classification benefits***

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para4 :

(i) In modification to para 4.2.1, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(ii) In modification to para 4.2.2, during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

However, these benefits will be available subject to compliance with the following conditions :

(i) The dues to the NBFC are 'fully secured' as defined in Appendix - 2. The condition of being fully secured by tangible security will not be applicable to infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing NBFC(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

(ii) The unit becomes viable in 8 years, if it is engaged in infrastructure activities, and in 5 years in the case of other units.

(iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.

(iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of NBFCs' sacrifice or 2 per cent of the restructured debt, whichever is higher. This stipulation is the minimum and NBFCs may decide on a higher sacrifice by promoters depending on the riskiness of the project and promoters' ability to bring in higher sacrifice amount. Further, such higher sacrifice may invariably be insisted upon in larger accounts, especially CDR accounts. The promoters' sacrifice should invariably be brought upfront while extending the restructuring benefits to the borrowers. The term 'NBFC's sacrifice' means the amount of "erosion in the fair value of the advance" or "total sacrifice", to be computed as per the methodology enumerated in para 4.4.2 (i) and (ii) above.

(v) Promoter's contribution need not necessarily be brought in cash and can be brought in the form of de-rating of equity, conversion of unsecured loan brought by the promoter into equity and interest free loans.

(vi) The restructuring under consideration is not a 'repeated restructuring' as defined in Appendix - 2.

7.2.3. In line with the recommendation of the Working Group (Chairman : Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks / financial institutions, the incentive for quick implementation of restructuring package and asset classification benefits (paragraph 7.2.1&7.2.2 above) available on restructuring on fulfilling the conditions will however be withdrawn for all restructurings effective from April 1, 2015 with the exception of provisions related to changes in DCCO in respect of infrastructure as well as non-infrastructure project loans (please see para 3). It implies that with effect from April 1, 2015, a standard account on restructuring (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also the non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per the extant asset classification norms with reference to the pre-restructuring repayment schedule.

8. Miscellaneous

8.1 The NBFCs should decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the NBFCs shall have the right to convert a portion of the restructured amount into equity, keeping in view the relevant SEBI regulations.

8.2 Conversion of debt into preference shares should be done only as a last resort and such conversion of debt into equity / preference shares should, in any case, be restricted to a cap (say 10 per cent of the restructured debt). Further, any conversion of debt into equity should be done only in the case of listed companies.

8.3 NBFCs may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to pre pay. Further, all restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below bare lending rate, 100 per cent of the recompense amount should be recovered.

8.4 As stipulating personal guarantee will ensure promoters' "skin in the game" or commitment to the restructuring package, promoters' personal guarantee should be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.

9. Disclosures

With effect from the financial year ending March 2014NBFCs should disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances as per the format given in Appendix - 4. The information would be required for advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories separately. NBFCs must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means even if only one of the facilities / accounts of a borrower has been restructured, the NBFC should also disclose the entire outstanding amount pertaining to all the facilities / accounts of that particular borrower. The disclosure format prescribed in Appendix - 4, inter-alia, includes the following :

i. details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);

ii. provisions made on restructured accounts under various categories; and

iii. details of movement of restructured accounts.

This implies that once the higher provisions on restructured advances (classified as standard either abinitio or on upgradation from NPA category) revert to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by NBFCs as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, the provision for diminution in the fair value of restructured accounts on such restructured accounts should continue to be maintained by NBFCs as per the existing instructions.

10. The CDR Mechanism will also be available to the corporates engaged in nonindustrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, NBFCs are also encouraged to strengthen the coordination among themselves / creditors in the matter of restructuring of consortium / multiple lending accounts, which are not covered under the CDR Mechanism.

It has been reiterated that the basic objective of restructuring is to preserve economic value of units, not ever-greening of problem accounts. This can be achieved by NBFCs and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages.

Appendix -1

Broad Benchmarks for the Viability Parameters

i. Return on capital employed should be at least equivalent to 5 year Government security yield plus 2 per cent.

ii. The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.

iii. The benchmark gap between internal rate of return and cost of capital should be at least 1per cent.

iv. Operating and cash break even points should be worked out and they should be comparable with the industry norms.

v. Trends of the company based on historical data and future projections should be comparable with the industry. Thus behaviour of past and future EBIDTA should be studied and compared with industry average.

vi. Loan life ratio (LLR), as defined below should be 1.4, which would give a cushion of 40% to the amount of loan to be serviced.

$$\text{LLR} = \frac{\text{Present value of total available cash flow (ACF) during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

Appendix-2

Key Concepts

(i) Advances

The term 'Advances' will mean all kinds of credit facilities including, term loans, bills discounted / purchased, factored receivables, etc. and investments other than that in the nature of equity.

(ii) Fully Secured

When the amounts due to an NBFC (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the NBFC's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.

(iii) Restructured Accounts

A restructured account is one where the NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the NBFC would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly will not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as 'restructured accounts'.

In the cases of roll-over of short term loans, where proper pre-sanction assessment has been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these might not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then third roll-over onwards the account would have to be treated as a restructured account. Besides, NBFCs should be circumspect while granting such facilities as the borrower may be availing similar facilities from other banks / creditors in the consortium or under multiple banking. Further, Short Term Loans for the purpose of this provision do not include properly assessed regular Working Capital Loans like revolving Cash Credit or Working Capital Demand Loans.

(iv) Repeatedly Restructured Accounts

When an NBFC restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

(v) SMEs

Small and Medium Enterprise (SME) is an undertaking defined in RPCD circulars RPCD.PLNFS.BC.No.63.06.02/2006-07 dated April 4, 2007 amended from time to time.

(vi) Specified Period

Specified Period means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

(vii) Satisfactory Performance

Satisfactory performance during the specified period means adherence to the following conditions during that period.

Non-Agricultural Term Loan Accounts

In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than the number of days after which it would be classified as NPA. In addition there should not be any overdues at the end of the specified period.

Note

(i) While extending repayment period in respect of housing loans to keep the EMI unchanged, NBFCs should satisfy themselves about the revenue generation / repaying capacity of the borrower during the entire repayment period including the extended repayment period.

(ii) NBFCs should not extend the repayment period of such borrowers where they have concerns regarding the repaying capacity over the extended period, even if the borrowers want to extend the tenor to keep the EMI unchanged.

(iii) NBFCs should provide the option of higher EMI to such borrowers who want to repay the housing loan as per the original repayment period.

Appendix-3

Organisational Framework for Restructuring of Advances Under Consortium / Multiple Banking / Syndication Arrangements

A. Corporate Debt Restructuring (CDR) Mechanism

1.1 Objective

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

1.2 Scope

The CDR Mechanism has been designed to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank / Financial Institution (FI) in a coordinated manner. The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one bank / FI. This mechanism will be available to all borrowers engaged in any type of activity subject to the following conditions :

a) The borrowers enjoy credit facilities from more than one bank / FI under multiple banking / syndication / consortium system of lending.

b) The total outstanding (fund-based and non-fund based) exposure is Rs.10 crore or above.

CDR system in the country will have a three tier structure :

- CDR Standing Forum and its Core Group
- CDR Empowered Group
- CDR Cell

2. CDR Standing Forum

2.1 The CDR Standing Forum would be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks should participate in the system in their own interest. CDR Standing Forum will be a self empowered body, which will lay down policies and guidelines, and monitor the progress of corporate debt restructuring.

2.2 The Forum will also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

2.3 The CDR Standing Forum shall comprise of Chairman & Managing Director, Industrial Development Bank of India Ltd; Chairman, State Bank of India; Managing Director & CEO, ICICI Bank Limited; Chairman, Indian Banks' Association as well as Chairmen and Managing Directors of all banks and financial institutions participating as permanent members in the system. Since institutions like Unit Trust of India, General Insurance Corporation, Life Insurance Corporation may have assumed exposures on certain borrowers, these institutions may participate in the CDR system. The Forum will elect its Chairman for a period of one year and the principle of rotation will be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum. The RBI would not be a member of the CDR Standing Forum and Core Group. Its role will be confined to providing broad guidelines.

2.4 The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum would also lay down the policies and guidelines including those relating to the critical parameters for restructuring (for example, maximum period for a unit to become viable under a restructuring package, minimum level of promoters' sacrifice etc.) to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and would ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell. The CDR Standing Forum may also formulate guidelines for dispensing special treatment to those cases, which are complicated and are likely to be delayed beyond the time frame prescribed for processing.

2.5 A CDR Core Group will be carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group will consist of Chief Executives of Industrial Development Bank of India Ltd., State Bank of India, ICICI Bank Ltd, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks' Association and Deputy Chairman of Indian Banks' Association representing foreign banks in India.

2.6 The CDR Core Group would lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. These guidelines shall also suitably address the operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group shall also prescribe the PERT chart for processing of cases referred to the CDR system and decide on the modalities for enforcement of the time frame. The CDR Core Group shall also lay down guidelines to ensure that over-optimistic projections are not assumed while preparing / approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports / international cost competitiveness.

3. CDR Empowered Group

3.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. While the standing members will facilitate the conduct of the Group's meetings, voting will be in proportion to the exposure of the creditors only. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it would have to be ensured that participating institutions / banks approve a panel of senior officers to represent them in the CDR Empowered Group and ensure that they depute officials only from among the panel to attend the meetings of CDR Empowered Group. Further, nominees who attend the meeting pertaining to one account should invariably attend all the meetings pertaining to that account instead of deputing their representatives.

3.2 The level of representation of banks / financial institutions on the CDR Empowered Group should be at a sufficiently senior level to ensure that concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring. There should be a general authorisation by the respective Boards of the participating institutions / banks in favour of their representatives on the CDR Empowered Group, authorising them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporates.

3.3 The CDR Empowered Group will consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package will be worked out by the CDR Cell in conjunction with the Lead Institution. However, if the lead institution faces difficulties in working out the detailed restructuring package, the participating banks / financial institutions should decide upon the alternate institution / bank which would work out the detailed restructuring package at the first meeting of the Empowered Group when the preliminary report of the CDR Cell comes up for consideration.

3.4 The CDR Empowered Group would be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the Empowered Group. The CDR Empowered Group shall decide on the acceptable viability benchmark levels on the following illustrative parameters, which may be applied on a case-by-case basis, based on the merits of each case :

- Return on Capital Employed (ROCE),
- Debt Service Coverage Ratio (DSCR),
- Gap between the Internal Rate of Return (IRR) and the Cost of Fund (CoF),
- Extent of sacrifice.

3.5 The Board of each bank / FI should authorise its Chief Executive Officer (CEO) and / or Executive Director (ED) to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs. CDR Empowered Group will meet on two or three occasions in respect of each borrowal account. This will provide an opportunity to the participating members to seek proper authorisations from their CEO / ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him / her.

3.6 The decisions of the CDR Empowered Group shall be final. If restructuring of debt is found to be viable and feasible and approved by the Empowered Group, the company would be put on the restructuring mode. If restructuring is not found viable, the creditors would then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

4. CDR Cell

4.1 The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / creditors, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible. If found feasible, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.

4.2 All references for corporate debt restructuring by creditors or borrowers will be made to the CDR Cell. It shall be the responsibility of the lead institution / major stakeholder to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month. The CDR Cell will prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days. However, for sufficient reasons the period can be extended up to a maximum of 180 days from the date of reference to the CDR Cell.

4.3 The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd. However, it may be shifted to another place if considered necessary, as may be decided by the Standing Forum. The administrative and other costs shall be shared by all financial institutions and banks. The sharing pattern shall be as determined by the Standing Forum.

4.4 CDR Cell will have adequate members of staff deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The cost in operating the CDR mechanism including CDR Cell will be met from contribution of the financial institutions and banks in the Core Group at the rate of Rs.50 lakh each and contribution from other institutions and banks at the rate of Rs.5 lakh each.

5. Other features

5.1 **Eligibility criteria**

5.1.1 The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts / syndication / consortium accounts of corporate borrowers engaged in any type of activity with outstanding fund-based and non-fund based exposure of Rs.10 crore and above by banks and institutions.

5.1.2 The Category 1 CDR system will be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard' / 'substandard' in the books of at least 90% of creditors (by value), the same would be treated as standard / substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10% of creditors. There would be no requirement of the account / company being sick, NPA or being in default for a specified period before reference to the CDR system. However, potentially viable cases of NPAs will get priority. This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent.

5.1.3 While corporates indulging in frauds and malfeasance even in a single bank will continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group may review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases may be admitted for restructuring with the approval of the Core Group only. The Core Group may ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

5.1.4 The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% of creditors (by number).

5.1.5 BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases may be eligible for restructuring under the CDR system if specifically recommended by the CDR Core Group. The Core Group shall recommend exceptional BIFR cases on a case-to-case basis for consideration under the CDR system. It should be ensured that the lending institutions complete all the formalities in seeking the approval from BIFR before implementing the package.

5.2 **Reference to CDR system**

5.2.1 Reference to Corporate Debt Restructuring System could be triggered by (i) any or more of the creditor who have minimum 20% share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

5.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks / FIs should review all eligible cases where the exposure of the financial system is more than Rs.100 crore and decide about referring the case to CDR system or to proceed under the new Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 or to file a suit in DRT etc.

5.3 **Legal Basis**

5.3.1 CDR is a non-statutory mechanism which is a voluntary system based on Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). The Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) shall provide the legal basis to the CDR mechanism. The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines. The ICA signed by the creditors will be initially valid for a period of 3 years and subject to renewal for further periods of 3 years thereafter. The lenders in foreign currency outside the country are not a part of CDR system. Such creditors and also creditors like GIC, LIC, UTI, etc., who have not joined the CDR system, could join CDR mechanism of a particular corporate by signing transaction to transaction ICA, wherever they have exposure to such corporate.

5.3.2 The Inter-Creditor Agreement would be a legally binding agreement amongst the creditors, with necessary enforcement and penal clauses, wherein the creditors would commit themselves to abide by the various elements of CDR system. Further, the creditors shall agree that if 75 per cent of creditors by value and 60 per cent of the creditors by number, agree to a restructuring package of an existing debt (i.e., debt outstanding), the same would be binding on the remaining creditors. Since Category 1 CDR Scheme covers only standard and substandard accounts, which in the opinion of 75 per cent of the creditors by value and 60 per cent of creditors by number, are likely to become performing after introduction of the CDR package, it is expected that all other creditors (i.e., those outside the minimum 75 per cent by value and 60 per cent by number) would be willing to participate in the entire CDR package, including the agreed additional financing.

5.3.3 In order to improve effectiveness of the CDR mechanism a clause may be incorporated in the loan agreements involving consortium / syndicate accounts whereby all creditors, including those which are not members of the CDR mechanism, agree to be bound by the terms of the restructuring package that may be approved under the CDR mechanism, as and when restructuring may become necessary.

5.3.4 One of the most important elements of Debtor-Creditor Agreement would be 'stand still' agreement binding for 90 days, or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still' whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period, this would be necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that it will not approach any other authority for any relief and the directors of the borrowing company will not resign from the Board of Directors during the stand-still period.

5.4 **Sharing of Additional finance**

5.4.1 Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. In case for any internal reason, any creditor (outside the minimum 75 per cent and 60 per cent) does not wish to commit additional financing, that creditor will have an option in accordance with the provisions of para 5.6.

5.4.2 The providers of additional finance, whether existing creditors or new creditors, shall have a preferential claim, to be worked out under the restructuring package, over the providers of existing finance with respect to the cash flows out of recoveries, in respect of the additional exposure

5.5 **Exit Option**

5.5.1 As stated in para 5.5.1 a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance will have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred interest as mentioned above, without compounding, will be payable along with the last instalment of the principal due to the creditor.

5.5.2 In addition, the exit option will also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders may be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

5.5.3 The lenders who wish to exit from the package would have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which would be decided mutually between the exiting lender and the taking over lender. The new lenders shall rank on par with the existing lenders for repayment and servicing of the dues since they have taken over the existing dues to the exiting lender.

5.5.4 In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS may not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS may be factored into the restructuring package.

5.6 **Category 2 CDR System**

5.6.1 There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions :

(i) It will not be binding on the creditors to take up additional financing worked out under the debt restructuring package and the decision to lend or not to lend will depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing loans will only be restructured and it would be up to the promoter to firm up additional financing arrangement with new or existing creditors individually.

(ii) All other norms under the CDR mechanism such as the standstill clause, asset classification status during the pendency of restructuring under CDR, etc., will continue to be applicable to this category also.

5.6.2 No individual case should be referred to RBI. CDR Core Group may take a final decision whether a particular case falls under the CDR guidelines or it does not.

5.6.3 All the other features of the CDR system as applicable to the First Category will also be applicable to cases restructured under the Second Category.

5.7 **Incorporation of 'right to recompense' clause**

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. All restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount should be recovered.

B SME Debt Restructuring Mechanism

Apart from CDR Mechanism, there exists a much simpler mechanism for restructuring of loans availed by Small and Medium Enterprises (SMEs). Unlike in the case of CDR Mechanism, the operational rules of the mechanism have been left to be formulated by the banks concerned. This mechanism will be applicable to all the borrowers which have funded and non-funded outstanding up to Rs.10 crore under multiple / consortium banking arrangement. Major elements of this arrangements are as under :

(i) Under this mechanism, banks may formulate, with the approval of their Board of Directors, a debt restructuring scheme for SMEs within the prudential norms laid down by RBI. Banks may frame different sets of policies for borrowers belonging to different sectors within the SME if they so desire.

(ii) While framing the scheme, Banks may ensure that the scheme is simple to comprehend and will, at the minimum, include parameters indicated in these guidelines.

(iii) The main plank of the scheme is that the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

(iv) Banks should work out the restructuring package and implement the same within a maximum period of 90 days from date of receipt of requests.

(v) The SME Debt Restructuring Mechanism will be available to all borrowers engaged in any type of activity.

(vi) Banks may review the progress in rehabilitation and restructuring of SMEs accounts on a quarterly basis and keep the Board informed.

Appendix 4

Disclosure of Restructured Accounts

Disclosure of Restructured Accounts

Sl. No.	Type of Restructuring		Under CDR Mechanism					Under SME Debt Restructuring Mechanism					Others					Total				
	Asset Classification		Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
	Details																					
1	Restructured Accounts as on April 1 of th	No. of borrowers																				
		Amount out																				

	e FY (opening figures)*	standing																				
		Provision thereon																				
2	Fresh restructuring during the year	No. of borrowers																				
		Amount out																				

		standing																				
		Provision thereon																				
3	Upgradations to restructured standard	No. of borrowers																				
		Amount out																				

	category during the FY	standing																				
		Provision thereon																				
4	Restructured standard advances which ce	No. of borrowers																				
		Amount out																				

	ase to attract higher provisioning and / or additional risk weight at the end of th	standing																				
		Provision thereon																				

	e FY an d he nc e ne ed no t be sh ow n as re str uct ur ed sta nd ar d ad va nc es at th e be																					

	ginning of the next FY																					
5	Downgradations of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Pro																				

		vision thereon																				
6	Write-offs of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Pro																				

		vision thereon																				
7	Restructured Accounts as on March 31 of the FY (closing figur	No. of borrowers																				
		Amount outstanding																				
		Pro																				

	es *)	vi si o n th er e o n																				

* Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).

<u>Annex-IV</u>

Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries

1. The long tenor loans to infrastructure / core industries projects, say 25 years, could be structured as under:

i. The fundamental viability of the project would be established on the basis of all requisite financial and non-financial parameters, especially the acceptable level of interest coverage ratio (EBIDTA / Interest payout), indicating capacity to service the loan and ability to repay over the tenor of the loan;

ii. Allowing longer tenor amortisation of the loan (Amortisation Schedule), say 25 years (within the useful life / concession period of the project) with periodic refinancing (Refinancing Debt Facility) of balance debt, the tenor of which could be fixed at the time of each refinancing, within the overall amortisation period;

iii. This would mean that the NBFC, while assessing the viability of the project, would be allowed to accept the project as a viable project where the average debt service coverage ratio (DSCR) and other financial and non-financial parameters are acceptable over a longer amortisation period of say 25 years (Amortisation Schedule), but provide funding (Initial Debt Facility) for only, say, 5 years with refinancing of balance debt being allowed by existing or new lenders (Refinancing Debt Facility) or even through bonds; and

iv. The refinancing (Refinancing Debt Facility) after each of these 5 years would be of the reduced amounts determined as per the Original Amortisation Schedule.

2. NBFCs may finance fresh long term projects in infrastructure and core industries as suggested in paragraph 1 above provided that:

i. Only term loans to infrastructure projects, as defined under the Harmonised Master List of Infrastructure of RBI, and projects in core industries sector, included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India, (viz., coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel (Alloy + Non Alloy), cement and electricity - some of these sectors such as fertilisers, electricity generation, distribution and transmission, etc. are also included in the Harmonised Master List of Infrastructure sub-sectors) - will qualify for such refinancing;

ii. At the time of initial appraisal of such projects, NBFCs may fix an amortisation schedule (Original Amortisation Schedule) while ensuring that the cash flows from such projects and all necessary financial and non-financial parameters are robust even under stress scenarios;

iii. The tenor of the Amortisation Schedule should not be more than 80% (leaving a tail of 20%) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80% of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 80% of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects;

iv. The NBFC offering the Initial Debt Facility may sanction the loan for a medium term, say 5 to 7 years. This is to take care of initial construction period and also cover the period at least up to the date of commencement of commercial operations (DCCO) and revenue ramp up. The repayment(s) at the end of this period (equal in present value to the remaining residual payments corresponding to the Original Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. That repayment may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as Refinancing Debt Facility, and such refinancing may repeat till the end of the Amortisation Schedule;

v. The repayment schedules of Initial Debt Facility should normally correspond to the Original Amortisation Schedule, unless there is an extension of DCCO. In that case, in terms of extant instructions contained in DNBS.CO.PD.No.367/03.10.01/2013-14, dated January 23, 2014 and DNBR.CO.PD.No. 011/03.10.01/2014-15, dated January 16, 2015, mere extension of DCCO would not be considered as restructuring subject to certain conditions, if the revised DCCO falls within the period of two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively. In such cases the consequential shift in repayment schedule by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged or are enhanced to compensate for the delay and the entire project debt amortisation is scheduled within 85%[1] of the initial economic life of the project as prescribed in paragraph 2(iii) above;

vi. The Amortisation Schedule of a project loan may be modified once during the course of the loan (after DCCO) based on the actual performance of the project in comparison to the assumptions made during the financial closure without being treated as 'restructuring' provided:

a) The loan is a standard loan as on the date of change of Amortisation Schedule;

b) Net present value of the loan remains the same before and after the change in Amortisation Schedule; and

c) The entire outstanding debt amortisation is scheduled within 85%[2] of the economic life of the project as prescribed in paragraph 2 (iii) above;

vii. If the Initial Debt Facility or Refinancing Debt Facility becomes NPA at any stage, further refinancing should stop and the NBFC which holds the loan when it becomes NPA, would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

viii. NBFCs may determine the pricing of the loans at each stage of sanction of the Initial Debt Facility or Refinancing Debt Facility, commensurate with the risk at each phase of the loan, and such pricing should be as per the rate approved by its Board;

ix. NBFCs should secure their interest by way of proper documentation and security creation, etc.;

x. NBFCs will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

[1] A relaxation of only 5% of initial economic life is provided in case of delay in achieving DCCO from the 80% ceiling of amortisation of project debt prescribed in paragraph 2(iii). NBFCs may factor the same while determining Original Amortisation Schedule

[2] Refer to Foot Note 1 above

xi. NBFCs should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other NBFCs/lenders, and should take this into account when estimating liquidity needs as well as stress scenarios. Further, unless the part or full refinancing by other NBFCs/lenders is clearly identified, the cash flows from such refinancing should not be taken into account for computing liquidity ratios. Similarly, once committed, the refinancing NBFC/lender should take into account such cash flows for computing their liquidity ratios; and

xii. NBFCs should have a Board approved policy for such financing.

3. Further, NBFCs may also flexibly structure the existing project loans to infrastructure projects and core industries projects with the option to periodically refinance the same as per the norms given below:

i) Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs.500 crore, in the infrastructure sector (as defined under the Harmonised Master List of Infrastructure of RBI) and in the core industries sector (included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India) will qualify for such flexible structuring and refinancing;

ii) NBFCs may fix a Fresh Loan Amortisation Schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

a. The loan is a standard loan as on the date of change of Loan Amortisation Schedule;
b. Net present value of the loan remains same before and after the change in Loan Amortisation Schedule;
c. The Fresh Loan Amortisation Schedule should be within 85 per cent (leaving a tail of 15 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and

d. The viability of the project is reassessed by the NBFC and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy dated March 21, 2014.

iii) If a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para 3(ii) above, while the current exercise of fixing the Fresh Loan Amortisation Schedule may not be treated as an event of 'repeated restructuring', the loan should continue to be classified as 'restructured standard' asset. Upgradation of such assets would be governed by the extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

iv) Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule will be governed by the extant restructuring norms;

v) NBFCs may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as refinancing debt facility, and such refinancing may repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at paragraph 3(ii) would not be applicable at the time of periodic refinancing of the project term loan;

vi) If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing should stop and the NBFC which holds the loan when it becomes NPA would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

vii) NBFCs may determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing should be as per the rate approved by the Board;

viii) NBFCs should secure their interest by way of proper documentation and security creation, etc.;

ix) NBFCs will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

x) NBFCs should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other lenders, and should take this into account when estimating liquidity needs as well as stress scenarios; and

xi) NBFCs should have a Board approved policy for such financing.

4. It is clarified that NBFCs may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'NPAs'. However, such an exercise would be treated as 'restructuring' and the assets would continue to be treated as 'NPA'. Such accounts may be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility would be permitted only when the account is classified as 'standard' as prescribed in the para 3(vi) above.

5. It is reiterated that the exercise of flexible structuring and refinancing should be carried out only after DCCO. Further, one of the conditions (para 7.2.2. (iii) of Annex-2 of Notification No.DNBS(PD).No.272/CGM(NSV)-2014, dated January 23, 2014, viz., "The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.") for availing special asset benefits under restructuring guidelines will cease to be applicable on any loan to infrastructure and core industries project covered under the ambit of this circular.

6. RBI will review these instructions at periodic intervals.

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Annex V

Branch details Of NBFCs

VALIDATE FORM　　EDIT FORM

ADD BRANCH　　DELETE BRANCH

Company Name			Company code number (as given by RBI)						
Sr. No.	**Branch Name**	**Branch Address**	**City**	**District**	**State**	**Opening Date (dd/mm/yyyy)**	**Closing Date (dd/mm/yyyy)**	**Amount Of Public Deposit (*) Rs. In lakhs**	**Remarks**
1									

* - This column is to be filled only by deposit taking companies, else substitute '0' in place.

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI 400 005

NOTIFICATION No.DNBR.009/ CGM(CDS)-2015 dated March 27, 2015

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 Notification No. DNBS. 193/ DG(VL)-2007 dated February 22, 2007, gives the Directions hereinafter specified.

Short title, commencement and applicability of the Directions:

1. (1) These Directions shall be known as the "**Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015**".

(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 and having an asset size of Rs. 500 crore and above as per the last audited balance sheet,.

(ii) These Directions, except the provisions of paragraph 25 shall not apply to a non-banking financial company being a Government company as defined under clause (45) of Section 2 of the Companies Act, 2013 (18 of 2013) and not accepting / holding public deposit.[*]

[*]Government Companies were advised vide DNBS.PD/ CC.No. 86/ 03.02.089 /2006-07 dated December 12, 2006 to submit a road map for compliance with the various elements of the NBFC regulations, in consultation with the Government, and submit the same to the Reserve Bank [Department of Non Banking Supervision – (DNBS)]

(iii) The provisions of paragraphs 15, 16 and 24 of these Directions shall not apply to a Systemically Important Core Investment Company as defined in the CIC Directions.

(iv) The provisions of paragraphs 8, 9 and 24 of these Directions shall not apply to an NBFC-MFI as defined in the Non-Banking Financial Company- Micro Finance Institutions (Reserve Bank) Directions, 2011.

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) 'companies in the group', shall mean an arrangement involving two or more entities related to each other through any of the following relationships: Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above."

(iv) "Conduct of business regulations" means the directions issued by the Bank from time to time on Fair Practices Code and Know Your Customer guidelines.

(v) "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;

(vi) "customer interface" means interaction between the NBFC and its customers while carrying on its NBFI business.

(vii) "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' for the financial year ended March 31, 2015; 'exceeding 16 months' for the financial year ended March 31, 2016; 'exceeding 14 months' for the financial year ending March 31, 2017 and 'exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

(viii) "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;

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

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

(xi) "Infrastructure Finance Company" means a non-deposit taking NBFC that fulfills the following criteria :

(a) a minimum of 75 per cent of its total assets deployed in "infrastructure loans";

(b) Net owned funds of Rs. 300 crore or above;

(c) minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA, Brickwork Rating India Pvt. Ltd. (Brickwork) or equivalent rating by any other credit rating agency accredited by RBI.

(d) CRAR of 15 percent (with a minimum Tier I capital of 10 percent)

Explanation: A Credit facility extended by lenders (i.e. NBFCs) to borrower for exposure in the following infrastructure sub-sectors will qualify as "Infrastructure loans" -

Sr. No.	Category		Infrastructure sub-sectors
1.	Transport	i	Roads and bridges
		ii	Ports[1]
		iii	Inland Waterways
		iv	Airport
		v	Railway Track, tunnels, viaducts, bridges[2]
		vi	Urban Public Transport (except rolling stock in case of urban road transport)
2.	Energy	i	Electricity Generation
		ii	Electricity Transmission
		iii	Electricity Distribution
		iv	Oil pipelines
		v	Oil / Gas / Liquefied Natural Gas (LNG) storage facility[3]
		vi	Gas pipelines[4]
3.	Water & Sanitation	i	Solid Waste Management
		ii	Water supply pipelines
		iii	Water treatment plants
		iv	Sewage collection, treatment and disposal system
		v	Irrigation (dams, channels, embankments etc)
		vi	Storm Water Drainage System
		vii	Slurry Pipelines
4.	Communication	i	Telecommunication (Fixed network)[5]
		ii	Telecommunication towers
		iii	Telecommunication & Telecom Services
5.	Social and Commercial Infrastructure	i	Education Institutions (capital stock)
		ii	Hospitals (capital stock)[6]
		iii	Three-star or higher category classified hotels located outside cities with population of more than 1 million
		iv	Common infrastructure for industrial parks, SEZ,

			tourism facilities and agriculture markets
		v	Fertilizer (Capital investment)
		vi	Post harvest storage infrastructure for agriculture and horticultural produce including cold storage
		vii	Terminal markets
		viii	Soil-testing laboratories
		ix	Cold Chain[7]
		x.	Hotels with project cost[8] of more than Rs.200 crores each in any place in India and of any star rating.
		xi.	Convention Centres with project cost[8] of more than Rs.300 crores each
Notes			
1	Includes Capital Dredging		
2	Includes supporting terminal infrastructure such as loading / unloading terminals, stations and buildings		
3	Includes strategic storage of crude oil		
4	Includes city gas distribution network		
5	Includes optic fibre / cable networks which provide broadband / internet		
6	Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres		
7	Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.		
8.	Applicable with prospective effect from the date of this circular and available for eligible projects for a period of three years; Eligible costs exclude cost of land and lease charges but include interest during construction.		

(xii) "NBFC-MFI" means a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

(a) Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore).

(b) Not less than 85% of its net assets are in the nature of "qualifying assets."

For the purpose of (b) above,

"net assets" are defined as total assets other than cash and bank balances and money market instruments; and

"Qualifying asset" shall mean a loan which satisfies the following criteria:-

i. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000;
ii. loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles;
iii. total indebtedness of the borrower does not exceed Rs. 50,000;
iv. tenure of the loan not to be less than 24 months for loan amount in excess of Rs.15,000 with prepayment without penalty;
v. loan to be extended without collateral;
vi. aggregate amount of loans, given for income generation, is not less than 70 per cent of the total loans given by the MFIs;
vii. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.

(xiii) "Non-Banking Financial Company – Factor" means a non-banking financial company as defined in clause (*f*) of section 45-I of the RBI Act, 1934 having financial assets in the factoring business at least to the extent of 50 percent of its total assets and its income derived from factoring business is not less than 50 percent of its gross income and has been granted a certificate of registration under sub-section (1) of section 3 of the Factoring Regulation Act, 2011.

(xiv) "Non-Operative Financial Holding Company (NOFHC)" means a non-deposit taking NBFC referred to in the **"Guidelines for Licensing of New Banks in the Private Sector",** issued by the Reserve Bank, which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by Reserve Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

(xv) "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.

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

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

(xviii) "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.

(xix) "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;

Provided that the period of 'six months or more' stipulated in sub-clauses (a) to (f) shall be 'five months or more' for the financial year ending March 31, 2016; 'four months or more' for the financial year ending March 31, 2017 and 'three months or more', for the financial year ending March 31, 2018 and thereafter.

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

Provided that the period of 'twelve months or more' stipulated in this sub-clause shall be 'nine months or more' for the financial year ending March 31, 2016; 'six months or more' for the financial year ending March 31, 2017; and 'three months or more' for the financial year ending March 31, 2018 and thereafter.

(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.

(xx) "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;

(xxi) “public funds” includes funds raised directly or indirectly through public deposits, commercial papers, debentures, inter-corporate deposits and bank finance but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue.

(xxii) “standard asset” means the assets in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;

(xxiii) “sub-standard asset” means:

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;

Provided that the period ‘not exceeding 18 months’ stipulated in this sub-clause shall be ‘not exceeding 16 months’ for the financial year ending March 31, 2016; ‘not exceeding 14 months’ for the financial year ending March 31, 2017; and ‘not exceeding 12 months’ for the financial year ending March 31, 2018 and thereafter.

(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 27 of these Directions;

(xxiv) "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:

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

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

(xxv) "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;

(xxvi) '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. 500 crore and above as shown in the last audited balance sheet;

(xxvii) "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; and perpetual debt instruments issued by a non-deposit taking non-banking financial company in each year to the extent it does not exceed 15% of the aggregate Tier I Capital of such company as on March 31 of the previous accounting year;

(xxviii) "Tier II capital" includes the following:

(a) preference shares other than those which are compulsorily convertible into equity;

(b) revaluation reserves at discounted rate of fifty five percent;

(c) General Provisions (including that for Standard Assets) 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;

(e) subordinated debt; and

(f) perpetual debt instruments issued by a non-deposit taking non-banking financial company which is in excess of what qualifies for Tier I Capital,

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

(2) Words or expressions used and not defined in these directions but 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 meanings respectively assigned to them under that Act or Directions. Any words or expressions used and not defined in these directions or in the RBI Act or any of the Directions issued by the RBI, shall have the meanings respectively assigned to them under the Companies Act, 2013 (18 of 2013).

Income recognition

3. (1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount/ hire charges/ lease rentals 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.

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 shall 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) In case of inter-class transfer –

(i) There shall be no such transfer on ad-hoc basis;

(ii) such 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) (a) 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.

(b) 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 breakup value, whichever is lower. However, non-banking financial companies may substitute fair value for the breakup 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 investments 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	Per cent 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 percent of total outstanding shall be made.

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

(i) Hire purchase assets - 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) (xxiii) (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 11.

(6) All financial leases written on or after April 1, 2001 attract the provisioning requirements as applicable to hire purchase assets.

(7) In case of NBFC-MFIs, if the advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances.

Standard Asset Provisioning

10. Every Non-Banking Financial Company shall make provisions for standard assets at 0.25 per cent by the end of March 2015; 0.30 per cent by the end of March 2016; 0.35 per cent by the end of March 2017 and 0.40 per cent by the end of March 2018 and thereafter, of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.

Disclosure in the balance sheet

11. (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.

(5) Every non-banking financial company shall disclose the following particulars in its Balance Sheet:

i. Capital to Risk Assets Ratio (CRAR);

ii. Exposure to real estate sector, both direct and indirect; and

iii. Maturity pattern of assets and liabilities.

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. Every non-banking financial company shall finalise its balance sheet within a period of 3 months from the date to which it pertains.

Schedule to the balance sheet

13. Every non-banking financial company shall append to its balance sheet prescribed under the Companies Act, 2013, the particulars in the schedule as set out in Annex I.

Transactions in Government securities

14. Every non-banking financial company shall 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. (1) Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the [1][business] of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. 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, within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that 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.

(2) For an NBFC-MFI, such Certificate should also indicate that the company fulfills all conditions stipulated to be classified as an NBFC-MFI in the notification DNBS.PD.No.234/CGM(US)-2011 dated December 02, 2011.

[1]It was clarified in DNBS (PD) C.C. No. 81/03.05.002/2006-07 dated October 19, 2006, that the business of non-banking financial institution (NBFI) means a company engaged in the business of financial institution as contained in Section 45I(a) of the RBI Act, 1934. For this purpose, the definition of 'Principal Business' given, vide Press Release 1998-99/1269 dated April 8, 1999 may be followed.

(3) For an NBFC-Factor, such Certificate should indicate the requirement of holding the certificate under Section 3 of the Factoring Act. The certificate should also indicate the percentage of factoring assets and income, the compliance that it fulfills all conditions stipulated under the Act to be classified as an NBFC-Factor and compliance to minimum capitalization norms, if FDI has been received.

Requirement as to capital adequacy

16. (1) Every non-banking financial company shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.

(2) The total of Tier I capital, at any point of time, shall not be less than 8.5% by March 31, 2016 and 10% by March 31, 2017

(3) NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier l capital of 12 percent

(4) The total Tier II Capital for NBFC-MFIs, at any point of time, shall not exceed one hundred percent of Tier I Capital.

Explanations:

I. 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 –	Percentage weight
On-Balance Sheet items	
(i) Cash and bank balances including fixed deposits and certificates of	

deposits with banks	0
(ii) Investments	
(a) Approved securities	0
[Except at (c) below]	
(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) Current assets	
(a) Stock on hire (net book value)	100
(b) Inter-corporate loans/deposits	100
(c) Loans and advances fully	
secured against deposits held	0
by the company itself	
(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) Fixed Assets(net of depreciation)	
(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.

(5) For loans guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) NBFC-MFIs may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as per extant guidelines

(6) Norms for Infrastructure loans

(a) 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.

(b) For Infrastructure Finance Companies, the risk weight for assets covering PPP and post commercial operations date (COD) projects which have completed at least one year of satisfactory commercial operations shall be at 50 percent.

II. Off-balance sheet items

A. General

NBFCs will calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure will be calculated by means of a two-step process:

(a) the notional amount of the transaction is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and

(b) the resulting credit equivalent amount is multiplied by the risk weight applicable viz. zero percent for exposure to Central Government/State Governments, 20 percent for exposure to banks and 100 percent for others.

B. Non-market-related off- balance sheet items

i. The credit equivalent amount in relation to a non-market related off-balance sheet item will be determined by multiplying the contracted amount of that particular transaction by the relevant credit conversion factor (CCF).

Sr. No.	Instruments	Credit Conversion Factor
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.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC.	100	
vii.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.	100	
viii.	Lending of NBFC securities or posting of securities as collateral by NBFC, including instances where these arise out of repo style transactions	100	
ix.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of up to one year over one year	20 50	
x.	Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's credit worthiness	0	
xi.	Take-out Finance in the books of taking-over institution		
	(i)	Unconditional take-out finance	100

	(ii)	Conditional take-out finance	50
		Note : As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.	
xii.	Commitment to provide liquidity facility for securitization of standard asset transactions	100	
xiii.	Second loss credit enhancement for securitization of standard asset transactions provided by third party	100	
xiv.	Other contingent liabilities (To be specified)	50	

Note:

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

ii. Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of NBFC's on-balance sheet credit exposure.

For example:

A term loan of Rs. 700 cr is sanctioned for a large project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – Rs. 150 cr in Stage I, Rs. 200 cr in Stage II and Rs. 350 cr in Stage III, where the borrower needs the NBFC's explicit approval for draw downunderStages II and III after completion of certain formalities. If the borrower has drawn already Rs. 50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be Rs.100 cr. If Stage I is scheduled to be completed within one year, the CCF will be 20 percent and if it is more than one year then the applicable CCF will be 50 per cent.

C. Market Related Off-Balance Sheet Items

i. NBFCs should take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo / reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures.

ii. The credit risk on market related off-balance sheet items is the cost to an NBFC of replacing the cash flow specified by the contract in the event of counterparty default. This would depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.

iii. Market related off-balance sheet items would include:

- (a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;
- (b) foreign exchange contracts, including contracts involving gold, - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;
- (c) Credit Default Swaps; and
- (d) any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.

iv. Exemption from capital requirements is permitted for -

(a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and

(b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.

v. The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.

vi. A CCF of 100 per cent will be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure will be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight will be 20 per cent and for other CCPs, risk weight will be 50 percent.

vii. The total credit exposure to a counter party in respect of derivative transactions should be calculated according to the current exposure method as explained below:

D. Current Exposure Method

The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of a) current credit exposure and b) potential future credit exposure of the contract.

(a) Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty should not be netted). The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market.

(b) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives		
Credit Conversion Factors (%)		
Interest Rate Contracts		**Exchange Rate Contracts & Gold**
One year or less	**0.50**	**2.00**
Over one year to five years	**1.00**	**10.00**
Over five years	**3.00**	**15.00**

i. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.

ii. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.

iii. No potential future credit exposure would be calculated for single currency floating / floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

iv. Potential future exposures should be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the NBFC would have an effective notional amount of USD 2 million.

"E. Credit conversion factors for Credit Default Swaps(CDS)]:

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may be held in current category or permanent category. The capital charge for these exposures will be as under:

(i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection will be permitted to be recognised to a maximum of 80% of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20% of the applicable capital charge. This can be achieved by taking the exposure value at 20% of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others."

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

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

Loans against security of single product - gold jewellery

18. (a) All NBFCs shall

(i) maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery;

Provided that the value of gold jewellery for the purpose of determining the maximum permissible loan amount shall be the intrinsic value of the gold content therein and no other cost elements shall be added thereto. The intrinsic value of the gold jewellery shall be arrived at as detailed in paragraph 20(1) of the Directions.

(ii) disclose in their balance sheet the percentage of such loans to their total assets.

(b) NBFCs should not grant any advance against bullion / primary gold and gold coins. NBFCs should not grant any advance for purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of Exchange Traded Funds (ETF) and units of gold mutual fund.

Verification of the Ownership of Gold

19. (1) Where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs shall keep a record of the verification of the ownership of the jewellery. The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document shall be prepared to explain how the ownership of the jewellery has been determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams.

(2) NBFCs shall have an explicit policy in this regard as approved by the Board in their overall loan policy.

Standardization of Value of Gold accepted as collateral in arriving at LTV Ratio

20. **(1)**The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by the following method:

i. The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by the Bombay Bullion Association Ltd. (BBA).

ii. If the purity of the gold is less than 22 carats, the NBFC shall translate the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

iii. NBFC, while accepting gold as collateral, should give a certificate to the borrower on their letterhead, of having assayed the gold and state the purity (in terms of carats) and the weight of the gold pledged.

NBFCs may have suitable caveats to protect themselves against disputes during redemption, but the certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction.

(2)Auction

a. The auction should be conducted in the same town or taluka in which the branch that has extended the loan is located.

b. While auctioning the gold the NBFC should declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments should not be less than 85% of the previous 30 day average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd. (BBA) and value of the jewellery of lower purity in terms of carats should be proportionately reduced.

c. It shall be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding should be payable to the borrower.

d. NBFCs shall disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction.

Safety and security measures to be followed by Non-Banking Financial Companies lending against collateral of gold jewellery

21. (1) Non-Banking Financial Companies, which are in the business of lending against collateral of gold jewellery, shall ensure that necessary infrastructure and facilities are put in place, including safe deposit vault and appropriate security measures for operating the vault, in each of its branches where gold jewellery is accepted as collateral. This is required to safeguard the gold jewellery accepted as collateral and to ensure convenience of borrowers.

(2) No new branch/es shall be opened without suitable arrangements for security and for storage of gold jewellery, including safe deposit vault.

Opening Branches exceeding one thousand in number

22. Non-Banking Financial Company shall obtain prior approval of the Reserve Bank to open branches exceeding 1000. However, NBFCs which already have more than 1000 branches may approach the Bank for prior approval for any further branch expansion. Besides, no new branches will be allowed to be opened without the facilities for storage of gold jewellery and minimum security facilities for the pledged gold jewellery.

Loans against security of shares

23. All NBFCs with asset size of ₹.100 crore and above shall,

(i) maintain a Loan to Value (LTV) ratio of 50% for loans granted against the collateral of shares, and

(ii) accept only Group 1 securities (specified in SMD/ Policy/ Cir-9/ 2003 dated March 11, 2003 as amended from time to time, issued by SEBI) as collateral for loans of value more than ₹.5 lakh, subject to review by the Bank.

Concentration of credit/investment

24. (1) On and from April 1, 2007 no 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 non-banking financial company in respect of investment in the equity capital of an insurance company up to the extent specifically permitted, in writing, by the Reserve Bank of India.

Provided further that any non-banking financial company not accessing public funds, either directly or indirectly, or not issuing guarantees may make an application to the Bank for an appropriate dispensation consistent with the spirit of the exposure limits.

Provided further that the non-banking financial companies may exceed the concentration of credit/investment norms, 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.

Provided that Infrastructure Finance Companies may exceed the concentration of credit norms

(i) in lending to:

(a) any single borrower, by ten per cent of its owned fund; and

(b) any single group of borrowers, by fifteen per cent of its owned fund;

(ii) in lending to and investing in, (loans/investments taken together)

(a) a single party, by five percent of its owned fund; and

(b) a single group of parties, by ten percent of its owned fund.

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

(3) An NBFC which is held by an NOFHC shall not

i. have any exposure (credit and investments including investments in the equity / debt capital instruments) to the Promoters/ Promoter Group entities or individuals associated with the Promoter Group or the NOFHC;

ii. make investment in the equity/ debt capital instruments in any of the financial entities under the NOFHC;

iii. invest in equity instruments of other NOFHCs.

Explanation: For the purposes of this Paragraph, the expression, 'Promoter' and 'Promoter Group' shall have the meanings assigned to those expressions in Annex 1 to the "Guidelines for Licensing of New Banks in the Private Sector" issued by Reserve Bank (Annex II).

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 with respect to change of address, directors, auditors, etc. to be submitted

25. Every non-banking financial company 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.

NBFCs not to be partners in partnership firms

26. (1) No non-banking financial company shall contribute to the capital of a partnership firm or become a partner of such firm.

(2) A non-banking financial company, which had already contributed to the capital of a partnership firm or was a partner of a partnership firm shall seek early retirement from the partnership firm.

(3) In this connection it is further clarified that;

a) Partnership firms mentioned above shall also include Limited Liability Partnerships (LLPs).

b) Further, the aforesaid prohibition shall also be applicable to Association of persons, these being similar in nature to partnership firms

NBFCs which had already contributed to the capital of a LLP/ Association of persons or was a partner of a LLP or member of an Association of persons are advised to seek early retirement from the LLP / Association of persons.

Norms for restructuring of advances

27. Norms for restructuring of advances by NBFCs shall be on the lines of the norms specified by the Reserve Bank of India for banks as modified and set forth in Annex-III.

Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries -

28. Norms for Flexible Structuring of Long Term project loans to Infrastructure and Core Industries by NBFCs shall be on the lines of the norms specified by the Reserve Bank of India for banks as modified and set forth in Annex-IV.

Submission of 'Branch Info' Return

29. All NBFCs shall submit a quarterly return on Branch Information within ten days of the expiry of the relative quarter as on March 31, June 30, September 30 and December 31 every year, in the specified format available in the Annex V, to the

Regional Office of the Department of Non-Banking Supervision of the Reserve Bank of India, under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998. The return shall be submitted online in the format available on https://cosmos.rbi.org.in.

Exemptions

30. 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

31. 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

32. (1) The Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 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.

(C D Srinivasan)
Chief General Manager

Annex I

Schedule to the

Balance Sheet of a non-deposit taking non-banking financial company

(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>**	Amount out-standing	Amount overdue
	(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		

	<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) 2. <u>Unquoted</u> : (i) Shares : (a) Equity	

	(b) Preference	
	(ii) Debentures and Bonds	
	(iii) Units of mutual funds	
	(iv) Government Securities	
	(v) Others (please specify)	
	<u>Long Term 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)	
	2. <u>Unquoted</u> :	
	(i) Shares : (a) Equity	
	(b) Preference	
	(ii) Debentures and Bonds	
	(iii) Units of mutual funds	
	(iv) Government Securities	
	(v) Others (please specify)	

(5) **Borrower group-wise classification of assets financed as in (2) and (3) above :**

Please see Note 2 below

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-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 whichever is applicable.
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.

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Annex II

Guidelines for Licensing of New Banks in the Private Sector

Definitions

I. **Promoter**

Promoter means, the person who together with his relatives (as defined in Section 6 of the Companies Act, 1956), by virtue of his ownership of voting equity shares, is in effective control of the NOFHC, and includes, wherever applicable, all entities which form part of the Promoter Group.

II. **Promoter Group**

"Promoter Group" includes :

(i) the promoter;

(ii) relatives of the promoter as defined in Section 6 of Companies Act 1956; and

(iii) in case promoter is a body corporate :

(A) a subsidiary or holding company of such body corporate;

(B) any body corporate in which the promoter holds ten per cent or more of the equity share capital or which holds ten per cent or more of the equity share capital of the promoter;

(C) any body corporate in which a group of individuals or companies or combinations thereof which hold twenty per cent or more of the equity share capital in that body corporate also holds twenty per cent or more of the equity share capital of the promoter;

(D) Joint venture (as defined in terms of AS 23) with the promoter;

(E) Associate (as defined in terms of AS 27) of the promoter;

(F) Related party (as defined in terms of AS 18) of the promoter; and

(iv) in case the promoter is an individual :

(A) any body corporate in which ten per cent or more of the equity share capital is held by the promoter or a relative of the promoter or a firm or Hindu Undivided Family in which the promoter or any one or more of his immediate relative is a member;

(B) any body corporate in which a body corporate as provided in (A) above holds ten per cent or more, of the equity share capital;

(C) any Hindu Undivided Family or firm in which the aggregate shareholding of the promoter and his immediate relatives is equal to or more than ten per cent of the total; and

(v) all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus[21] under the heading "shareholding of the promoter group";

(vi) Entities sharing a common brand name with entities discussed in A, B, C, D E, F where the promoter is a body corporate and A, B, C where the promoter is an individual;

Provided that a financial institution, scheduled bank, foreign institutional investor or mutual fund shall not be deemed to be promoter group merely by virtue of the fact that ten per cent or more of the equity share capital of the promoter is held by such institution.

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Annex-III

Norms on Restructuring of Advances by NBFCs

1. These prudential norms are applicable to all restructurings including those under CDR Mechanism. The institutional / organizational framework for CDR Mechanism and SME Debt Restructuring Mechanism will be as applicable to banks as per Annex-4 of DBOD.No.BP.BC.1/21.04.048/2013-14 dated July 1, 2013. The same is given in Appendix-3.

2. Key Concepts

Key concepts used in these norms are defined in Appendix-2.

3. Projects under implementation

3.1 For all projects financed by the NBFCs, the 'Date of Completion' and the 'Date of Commencement of Commercial Operations' (DCCO), of the project should be clearly spelt out at the time of financial closure of the project and the same should be formally documented. These should also be documented in the appraisal note by the NBFC during sanction of the loan.

3.2 **Project Loans**

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by NBFCs. Accordingly, the following asset classification norms would apply to the project loans before commencement of commercial operations.

For this purpose, all project loans have been divided into the following two categories :

(a) Project Loans for infrastructure sector

(b) Project Loans for non-infrastructure sector

For the purpose of these Directions, 'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Further, Infrastructure Sector is as defined in the extant Prudential Norms Directions for NBFCs.

3.3. **Project Loans for Infrastructure Sector**

(i) A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(ii) A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(iii) If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original DCCO, it can be retained as a standard asset if the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

(a) ***Infrastructure Projects involving court cases***

Up to another 2 years (beyond the existing extended period of 2 years, as prescribed in para 3.3 (ii), i.e. total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) ***Infrastructure Projects delayed for other reasons beyond the control of promoters***

Up to another 1 year (beyond the existing extended period of 2 years, as prescribed in para 3.3 (ii), i.e. total extension of 3 years), in other than court cases.

(iv) It is re-iterated that the dispensation in para 3.3 (iii) is subject to adherence to the provisions regarding restructuring of accounts which would inter alia require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be :

(a) In cases where there is moratorium for payment of interest, NBFCs should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

(b) NBFCs should maintain following provisions on such accounts as long as these are classified as standard assets in addition to provision for diminution in fair value :

(v) For the purpose of these Directions, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of two years from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.25 per cent.

<table>
<tr><th>Particulars</th><th colspan="3">Provisioning Requirement</th></tr>
<tr><td>If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure</td><td>*</td><td colspan="2">0.25 percent</td></tr>
<tr><td rowspan="5">If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay</td><td colspan="3">Project loans restructured with effect from January 24, 2014 :</td></tr>
<tr><td>*</td><td colspan="2">5.00 per cent - From the date of such restructuring till the revised DCCO or 2 years from the- date of restructuring, whichever is later.</td></tr>
<tr><td></td><td colspan="2">Stock of project loans classified as restructured as on January 23, 2014 :</td></tr>
<tr><td></td><td>-</td><td>2.75 percent - with effect from March 31, 2014</td></tr>
<tr><td></td><td>-</td><td>3.50 percent - with effect from March 31, 2015(spread over the four quarters of 2014-15)</td></tr>
</table>

		-	4.25 percent - with effect from March 31, 2016(spread over the four quarters of 2015-16)
		-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17)
	*	The above provisions will be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.	

(v) (a) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits as stated in above points and all other terms and conditions of the loan remained unchanged.

If deemed fit, NBFCs may extend DCCO beyond the respective time limits quoted at (iii)(a) to (b) above; however, in that case, NBFCs will not be able to retain the 'standard' asset classification status of such loan accounts.

(v)(b) In cases where NBFCs have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

In cases where the initial financial closure does not envisage such financing of cost overruns, NBFCs have been allowed to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at (iii)(a) to (b) above, without treating the loans as 'restructured asset' subject to the following conditions:

i) NBFCs may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

v) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

(vi) In case of infrastructure projects under implementation, where Appointed Date (as defined in the concession agreement) is shifted due to the inability of the Concession Authority to comply with the requisite conditions, change in date of commencement of commercial operations (DCCO) need not be treated as 'restructuring', subject to following conditions :

(a) The project is an infrastructure project under public private partnership model awarded by a public authority;

(b) The loan disbursement is yet to begin;

(c) The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender and;

(d) Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement.

3.4. **Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)**

(i) A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(ii) A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within one year from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(iii) In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of one year from the date of completion as determined at the time of financial closure, NBFCs can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts, provided the fresh DCCO does not extend beyond a period of two years from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of one year from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be :

(a) In cases where there is moratorium for payment of interest, NBFCs should not book income on accrual basis beyond one year from the original DCCO, considering the high risk involved in such restructured accounts.

(b) NBFCs should maintain following provisions on such accounts as long as these are classified as standard assets apart from provision for diminution in fair value due to extension of DCCO :

Particulars	**Provisioning Requirement**	
If the revised DCCO is within one year from the original DCCO prescribed at the time of financial closure	*	0.25 percent
If the DCCO is extended beyond one year and upto two years from the original	Project loans restructured with effect from January 24, 2014 :	
	*	5.00 per cent –From the date of restructuring

DCCO prescribed at the time of financial closure		for 2 years	
		Stock of Project loans classified as restructured as on January 23, 2014 :	
		-	2.75 per cent - with effect from March 31, 2014
		-	3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014- 15)
		-	4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015- 16)
		-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17).
	*	The above provisions will be applicable from the date of restructuring for 2 years.	

(iii) For the purpose of these guidelines, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.25 per cent.

(iv)(a) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits as stated in above points and all other terms and conditions of the loan remained unchanged.

If deemed fit, NBFCs may extend DCCO beyond the respective time limits quoted at (iii)(a) to (b) above; however, in that case, NBFCs will not be able to retain the ‘standard’ asset classification status of such loan accounts.

(iv)(b) In cases where NBFCs have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

In cases where the initial financial closure does not envisage such financing of cost overruns, NBFCs have been allowed to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at (iii)(a) to (b) above, without treating the loans as 'restructured asset' subject to the following conditions:

i) NBFCs may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

v) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

3.5. **Other Issues**

(i) Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if :

(a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

(b) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.

(c) The NBFC re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.

(d) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

(ii) Project Loans for Commercial Real Estate

For CRE projects mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO and there is no change in other terms and conditions except possible shift of the repayment schedule and servicing of the loan by equal or shorter duration compared to the period by which DCCO has been extended. Such CRE project loans will be treated as standard assets in all respects for this purpose without attracting the higher provisioning applicable for restructured standard assets. However, the asset classification benefit would not be available to CRE projects if they are restructured.

(iii) In all the above cases of restructuring where regulatory forbearance has been extended, the Boards of NBFCs should satisfy themselves about the viability of the project and the restructuring plan.

3.6. **Income recognition**

(i) NBFCs may recognise income on accrual basis in respect of the projects under implementation, which are classified as 'standard'.

(ii) NBFCs should not recognise income on accrual basis in respect of the projects under implementation which are classified as a 'substandard' asset. NBFCs may recognise income in such accounts only on realisation on cash basis.

Consequently, NBFCs which have wrongly recognised income in the past should reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognised as income in the previous year(s). As regards the regulatory treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' NBFCs should adopt the following :

(a) Funded Interest : Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring / rescheduling / renegotiation of terms of the loan agreement, should be done strictly on cash basis, only on realisation and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognised as income, a provision for an equal amount should also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognized as income, should be fully provided for.

(b) Conversion into equity, debentures or any other instrument : The amount outstanding converted into other instruments would normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision should be made for the amount of income so recognised to offset the effect of such income recognition. Such provision would be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments as per the valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified "current investment" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures should be treated as NPA, ab initio, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument should be recognised only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan would also be subject to the usual prudential valuation norms as applicable to such instruments.

4. General Principles and Prudential Norms for Restructured Advances

The principles and prudential norms laid down in this paragraph are applicable to all advances including the borrowers, who are eligible for special regulatory treatment for asset classification as specified in para 7.

4.1 **Eligibility criteria for restructuring of advances**

4.1.1 NBFCs may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.

4.1.2 NBFCs cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re- classification of an asset should not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it would be a matter of supervisory concern.

4.1.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the NBFC in deserving cases subject to customer agreeing to the terms and conditions.

4.1.4 No account will be taken up for restructuring by the NBFCs unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by NBFCs would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action. NBFCs should accelerate the recovery measures in respect of such accounts. The viability should be determined by the NBFCs based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters may include the Return on Capital

Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. As different sectors of economy have different performance indicators, it will be desirable that NBFCs adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability should be determined by the NBFCs based on the acceptable viability parameters and benchmarks for each parameter determined by them. The benchmarks for the viability parameters adopted by the CDR Mechanism are given in the Appendix-1. NBFCs may suitably adopt them with appropriate adjustments, if any, for specific sectors while restructuring of accounts in non-CDR cases.

4.1.5 Borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring.

4.1.6 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism, the lead bank in the case of SME Debt Restructuring Mechanism and the individual NBFCs in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

4.2 **Asset classification norms**

Restructuring of advances could take place in the following stages :

(a) before commencement of commercial production / operation;

(b) after commencement of commercial production / operation but before the asset has been classified as 'sub-standard';

(c) after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

4.2.1 The accounts classified as 'standard assets' should be immediately reclassified as 'sub-standard assets' upon restructuring.

4.2.2 The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

4.2.3 Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the NBFC should be upgraded only when all the outstanding loan / facilities in the account perform satisfactorily during the 'specified period' (Appendix - 2), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

4.2.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

4.2.5 Any additional finance may be treated as 'standard asset' during the specified period (Appendix - 2) under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'substandard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

4.2.6 If a restructured asset, which is a standard asset on restructuring is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion may be allowed to be upgraded to standard category after the specified period (Appendix - 2) in terms of the current restructuring package, subject to satisfactory performance.

4.3 **Income recognition norms**

Subject to provisions of paragraphs 4.2.5, 5.2 and 6.2, interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

4.4 **Provisioning norms**

4.4.1 Provision on restructured advances

(i) NBFCs will hold provision against the restructured advances as per the extant provisioning norms.

(ii) Restructured accounts classified as standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest / principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.

(iii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

(iv) The above-mentioned higher provision on restructured standard advances would be 5 per cent in respect of new restructured standard accounts (flow) with effect from January 24, 2014 and increase in a phased manner for the stock of restructured standard accounts as on January 23, 2014 as under :

* 2.75 per cent - with effect from March 31, 2014
* 3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15)
* 4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015-16
* 5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17

4.4.2 Provision for diminution in the fair value of restructured advances

(i) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the NBFC and will have impact on the NBFC's market value. It is, therefore, necessary for NBFCs to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision should be held in addition to the provisions as per existing provisioning norms as indicated in para 4.4.1 above, and in an account distinct from that for normal provisions.

For this purpose, the erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate i.e. the interest rate applicable to the borrower as per the loan agreement had the loan been serviced without any default, as applicable to the concerned borrower, as on the date of restructuring. Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate as applicable to the borrower as on the date of restructuring.

The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently by NBFCs in future. Further, it is reiterated that the provisions required as above arise due to the action of the NBFCs resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

(ii) The amount of principal converted into debt / equity instruments on restructuring would need to be held under 'current investments' and valued as per usual valuation norms. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt / equity has to be carried out separately. However, the total sacrifice involved for the NBFC would be NPV of the above portion plus valuation loss on account of conversion into debt / equity instruments.

NBFCs are therefore advised that they should correctly capture the diminution in fair value of restructured accounts as it will have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters (Ref. para 7.2.2.iv). Further, there should not be any effort on the part of NBFCs to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering. NBFCs are also advised to put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

(iii) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

(iv) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in the bare lending rate as applicable to the borrower. Consequently, NBFCs may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(i) If due to lack of expertise / appropriate infrastructure, an NBFC finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, NBFCs will have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five percent of the total exposure, in respect of all restructured accounts where the total dues to NBFC(s) are less than rupees one crore.

4.4.3 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

5. Prudential Norms for Conversion of Principal into Debt / Equity

5.1 **Asset classification norms**

A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt / equity instruments so created will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of these instruments would also be determined based on the subsequent asset classification of the restructured advance.

5.2 **Income recognition norms**

5.2.1 ***Standard Accounts***

In the case of restructured accounts classified as 'standard', the income, if any, generated by these instruments may be recognised on accrual basis.

5.2.2 ***Non- Performing Accounts***

In the case of restructured accounts classified as non-performing assets, the income, if any, generated by these instruments may be recognised only on cash basis.

5.3 **Valuation and provisioning norms**

These instruments should be held under 'current investments' and valued as per usual valuation norms. Equity classified as standard asset should be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available, the shares are to be valued at Re.1. Equity instrument classified as NPA should be valued at market value, if quoted, and in case where equity is not quoted, it should be valued at Re.1. Depreciation on these instruments should not be offset against the appreciation in any other securities held under the 'current investment' category.

6. Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

6.1 **Asset classification norms**

The FITL / debt or equity instrument created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL / debt or equity instruments would also be determined based on the subsequent asset classification of the restructured advance.

6.2 **Income recognition norms**

6.2.1 The income, if any, generated by these instruments may be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.

6.2.2 The unrealised income represented by FITL / Debt or equity instrument should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalisation)".

6.2.3 In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation, not exceeding the amount of interest converted into equity.

6.2.4 Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received will be recognised in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

6.3 **Valuation & Provisioning norms**

Valuation and provisioning norms would be as per para 5.3 above. The depreciation, if any, on valuation may be charged to the Sundry Liabilities (Interest Capitalisation) Account.

7. Special Regulatory Treatment for Asset Classification

7.1 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 4 above, will be available, in respect of restructuring of advances granted to infrastructure projects,non-infra projects and all advances restructured either under CDR mechanism / SME Debt Restructuring Mechanism and debt restructured in a consortium / multiple lending arrangement (except the following categories of advances), subject to compliance with certain conditions as enumerated in para 7.2 below :

i. Consumer and personal advances;

ii. Advances classified as Capital market exposures;

iii. Advances classified as commercial real estate exposures

The asset classification of these three categories of accounts as well as that of other accounts which do not comply with the conditions enumerated in para 7.2, will be governed by the prudential norms in this regard described in para4 above.

7.2 **Elements of special regulatory framework**

The special regulatory treatment has the following two components :

(i) Incentive for quick implementation of the restructuring package.

(ii) Retention of the asset classification of the restructured account in the pre-restructuring asset classification category.

7.2.1 ***Incentive for quick implementation of the restructuring package***

As stated in para 4.1.2, during the pendency of the application for restructuring of the advance with the NBFC, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the NBFC as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the NBFC in non-CDR cases :

(i) Within 120 days from the date of approval under the CDR Mechanism.

(ii) Within 120 days from the date of receipt of application by the NBFC in cases other than those restructured under the CDR Mechanism.

7.2.2 ***Asset classification benefits***

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para4 :

(i) In modification to para 4.2.1, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(ii) In modification to para 4.2.2, during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

However, these benefits will be available subject to compliance with the following conditions :

(i) The dues to the NBFC are 'fully secured' as defined in Appendix - 2. The condition of being fully secured by tangible security will not be applicable to infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing NBFC(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

(ii) The unit becomes viable in 8 years, if it is engaged in infrastructure activities, and in 5 years in the case of other units.

(iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.

(iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of NBFCs' sacrifice or 2 per cent of the restructured debt, whichever is higher. This stipulation is the minimum and NBFCs may decide on a higher sacrifice by promoters depending on the riskiness of the project and promoters' ability to bring in higher sacrifice amount. Further, such higher sacrifice may invariably be insisted upon in larger accounts, especially CDR accounts. The promoters' sacrifice should invariably be brought upfront while extending the restructuring benefits to the borrowers. The term 'NBFC's sacrifice' means the amount of "erosion in the fair value of the advance" or "total sacrifice", to be computed as per the methodology enumerated in para 4.4.2 (i) and (ii) above.

(v) Promoter's contribution need not necessarily be brought in cash and can be brought in the form of de-rating of equity, conversion of unsecured loan brought by the promoter into equity and interest free loans.

(vi) The restructuring under consideration is not a 'repeated restructuring' as defined in Appendix - 2.

7.2.3. In line with the recommendation of the Working Group (Chairman : Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks / financial institutions, the incentive for quick implementation of restructuring package and asset classification benefits (paragraph 7.2.1&7.2.2 above) available on restructuring on fulfilling the conditions will however be withdrawn for all restructurings effective from April 1, 2015 with the exception of provisions related to changes in DCCO in respect of infrastructure as well as non-infrastructure project loans (please see para 3). It implies that with effect from April 1, 2015, a standard account on restructuring (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also the non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per the extant asset classification norms with reference to the pre-restructuring repayment schedule.

8. Miscellaneous

8.1 The NBFCs should decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the NBFCs shall have the right to convert a portion of the restructured amount into equity, keeping in view the relevant SEBI regulations.

8.2 Conversion of debt into preference shares should be done only as a last resort and such conversion of debt into equity / preference shares should, in any case, be restricted to a cap (say 10 per cent of the restructured debt). Further, any conversion of debt into equity should be done only in the case of listed companies.

8.3 NBFCs may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to pre pay. Further, all restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below bare lending rate, 100 per cent of the recompense amount should be recovered.

8.4 As stipulating personal guarantee will ensure promoters' "skin in the game" or commitment to the restructuring package, promoters' personal guarantee should be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.

9. Disclosures

With effect from the financial year ending March 2014NBFCs should disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances as per the format given in Appendix - 4. The information would be required for advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories separately. NBFCs must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means even if only one of the facilities / accounts of a borrower has been restructured, the NBFC should also disclose the entire outstanding amount pertaining to all the facilities / accounts of that particular borrower. The disclosure format prescribed in Appendix - 4, inter-alia, includes the following :

i. details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);

ii. provisions made on restructured accounts under various categories; and

iii. details of movement of restructured accounts.

This implies that once the higher provisions on restructured advances (classified as standard either abinitio or on upgradation from NPA category) revert to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by NBFCs as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, the provision for diminution in the fair value of restructured accounts on such restructured accounts should continue to be maintained by NBFCs as per the existing instructions.

10. The CDR Mechanism will also be available to the corporates engaged in nonindustrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, NBFCs are also encouraged to strengthen the coordination among themselves / creditors in the matter of restructuring of consortium / multiple lending accounts, which are not covered under the CDR Mechanism.

It has been reiterated that the basic objective of restructuring is to preserve economic value of units, not ever-greening of problem accounts. This can be achieved by NBFCs and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages.

Appendix -1

Broad Benchmarks for the Viability Parameters

i. Return on capital employed should be at least equivalent to 5 year Government security yield plus 2 per cent.

ii. The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.

iii. The benchmark gap between internal rate of return and cost of capital should be at least 1per cent.

iv. Operating and cash break even points should be worked out and they should be comparable with the industry norms.

v. Trends of the company based on historical data and future projections should be comparable with the industry. Thus behaviour of past and future EBIDTA should be studied and compared with industry average.

vi. Loan life ratio (LLR), as defined below should be 1.4, which would give a cushion of 40% to the amount of loan to be serviced.

$$\text{LLR} = \frac{\text{Present value of total available cash flow (ACF) during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

Appendix-2

Key Concepts

(i) Advances

The term 'Advances' will mean all kinds of credit facilities including, term loans, bills discounted / purchased, factored receivables, etc. and investments other than that in the nature of equity.

(ii) Fully Secured

When the amounts due to an NBFC (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the NBFC's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.

(iii) Restructured Accounts

A restructured account is one where the NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the NBFC would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly will not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as 'restructured accounts'.

In the cases of roll-over of short term loans, where proper pre-sanction assessment has been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these might not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then third roll-over onwards the account would have to be treated as a restructured account. Besides, NBFCs should be circumspect while granting such facilities as the borrower may be availing similar facilities from other banks / creditors in the consortium or under multiple banking. Further, Short Term Loans for the purpose of this provision do not include properly assessed regular Working Capital Loans like revolving Cash Credit or Working Capital Demand Loans.

(iv) Repeatedly Restructured Accounts

When an NBFC restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

(v) SMEs

Small and Medium Enterprise (SME) is an undertaking defined in RPCD circulars RPCD.PLNFS.BC.No.63.06.02/2006-07 dated April 4, 2007 amended from time to time.

(vi) Specified Period

Specified Period means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

(vii) Satisfactory Performance

Satisfactory performance during the specified period means adherence to the following conditions during that period.

Non-Agricultural Term Loan Accounts

In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than the number of days after which it would be classified as NPA. In addition there should not be any overdues at the end of the specified period.

Note

(i) While extending repayment period in respect of housing loans to keep the EMI unchanged, NBFCs should satisfy themselves about the revenue generation / repaying capacity of the borrower during the entire repayment period including the extended repayment period.

(ii) NBFCs should not extend the repayment period of such borrowers where they have concerns regarding the repaying capacity over the extended period, even if the borrowers want to extend the tenor to keep the EMI unchanged.

(iii) NBFCs should provide the option of higher EMI to such borrowers who want to repay the housing loan as per the original repayment period.

Appendix-3

Organisational Framework for Restructuring of Advances Under Consortium / Multiple Banking / Syndication Arrangements

A. Corporate Debt Restructuring (CDR) Mechanism

1.1 **Objective**

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

1.2 **Scope**

The CDR Mechanism has been designed to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank / Financial Institution (FI) in a coordinated manner. The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one bank / FI. This mechanism will be available to all borrowers engaged in any type of activity subject to the following conditions :

a) The borrowers enjoy credit facilities from more than one bank / FI under multiple banking / syndication / consortium system of lending.

b) The total outstanding (fund-based and non-fund based) exposure is Rs.10 crore or above.

CDR system in the country will have a three tier structure :

- CDR Standing Forum and its Core Group
- CDR Empowered Group
- CDR Cell

2. CDR Standing Forum

2.1 The CDR Standing Forum would be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks should participate in the system in their own interest. CDR Standing Forum will be a self empowered body, which will lay down policies and guidelines, and monitor the progress of corporate debt restructuring.

2.2 The Forum will also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

2.3 The CDR Standing Forum shall comprise of Chairman & Managing Director, Industrial Development Bank of India Ltd; Chairman, State Bank of India; Managing Director & CEO, ICICI Bank Limited; Chairman, Indian Banks' Association as well as Chairmen and Managing Directors of all banks and financial institutions participating as permanent members in the system. Since institutions like Unit Trust of India, General Insurance Corporation, Life Insurance Corporation may have assumed exposures on certain borrowers, these institutions may participate in the CDR system. The Forum will elect its Chairman for a period of one year and the principle of rotation will be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum. The RBI would not be a member of the CDR Standing Forum and Core Group. Its role will be confined to providing broad guidelines.

2.4 The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum would also lay down the policies and guidelines including those relating to the critical parameters for restructuring (for example, maximum period for a unit to become viable under a restructuring package, minimum level of promoters' sacrifice etc.) to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and would ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell. The CDR Standing Forum may also formulate guidelines for dispensing special treatment to those cases, which are complicated and are likely to be delayed beyond the time frame prescribed for processing.

2.5 A CDR Core Group will be carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group will consist of Chief Executives of Industrial Development Bank of India Ltd., State Bank of India, ICICI Bank Ltd, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks' Association and Deputy Chairman of Indian Banks' Association representing foreign banks in India.

2.6 The CDR Core Group would lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. These guidelines shall also suitably address the operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group shall also prescribe the PERT chart for processing of cases referred to the CDR system and decide on the modalities for enforcement of the time frame. The CDR Core Group shall also lay down guidelines to ensure that over-optimistic projections are not assumed while preparing / approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports / international cost competitiveness.

3. CDR Empowered Group

3.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. While the standing members will facilitate the conduct of the Group's meetings, voting will be in proportion to the exposure of the creditors only. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it would have to be ensured that participating institutions / banks approve a panel of senior officers to represent them in the CDR Empowered Group and ensure that they depute officials only from among the panel to attend the meetings of CDR Empowered Group. Further, nominees who attend the meeting pertaining to one account should invariably attend all the meetings pertaining to that account instead of deputing their representatives.

3.2 The level of representation of banks / financial institutions on the CDR Empowered Group should be at a sufficiently senior level to ensure that concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring. There should be a general authorisation by the respective Boards of the participating institutions / banks in favour of their representatives on the CDR Empowered Group, authorising them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporates.

3.3 The CDR Empowered Group will consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package will be worked out by the CDR Cell in conjunction with the Lead Institution. However, if the lead institution faces difficulties in working out the detailed restructuring package, the participating banks / financial institutions should decide upon the alternate institution / bank which would work out the detailed restructuring package at the first meeting of the Empowered Group when the preliminary report of the CDR Cell comes up for consideration.

3.4 The CDR Empowered Group would be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the Empowered Group. The CDR Empowered Group shall decide on the acceptable viability benchmark levels on the following illustrative parameters, which may be applied on a case-by-case basis, based on the merits of each case :

- Return on Capital Employed (ROCE),
- Debt Service Coverage Ratio (DSCR),
- Gap between the Internal Rate of Return (IRR) and the Cost of Fund (CoF),
- Extent of sacrifice.

3.5 The Board of each bank / FI should authorise its Chief Executive Officer (CEO) and / or Executive Director (ED) to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs. CDR Empowered Group will meet on two or three occasions in respect of each borrowal account. This will provide an opportunity to the participating members to seek proper authorisations from their CEO / ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him / her.

3.6 The decisions of the CDR Empowered Group shall be final. If restructuring of debt is found to be viable and feasible and approved by the Empowered Group, the company would be put on the restructuring mode. If restructuring is not found viable, the creditors would then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

4. CDR Cell

4.1 The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / creditors, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible. If found feasible, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.

4.2 All references for corporate debt restructuring by creditors or borrowers will be made to the CDR Cell. It shall be the responsibility of the lead institution / major stakeholder to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month. The CDR Cell will prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days. However, for sufficient reasons the period can be extended up to a maximum of 180 days from the date of reference to the CDR Cell.

4.3 The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd. However, it may be shifted to another place if considered necessary, as may be decided by the Standing Forum. The administrative and other costs shall be shared by all financial institutions and banks. The sharing pattern shall be as determined by the Standing Forum.

4.4 CDR Cell will have adequate members of staff deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The cost in operating the CDR mechanism including CDR Cell will be met from contribution of the financial institutions and banks in the Core Group at the rate of Rs.50 lakh each and contribution from other institutions and banks at the rate of Rs.5 lakh each.

5. Other features

5.1 **Eligibility criteria**

5.1.1 The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts / syndication / consortium accounts of corporate borrowers engaged in any type of activity with outstanding fund-based and non-fund based exposure of Rs.10 crore and above by banks and institutions.

5.1.2 The Category 1 CDR system will be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard' / 'substandard' in the books of at least 90% of creditors (by value), the same would be treated as standard / substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10% of creditors. There would be no requirement of the account / company being sick, NPA or being in default for a specified period before reference to the CDR system. However, potentially viable cases of NPAs will get priority. This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent.

5.1.3 While corporates indulging in frauds and malfeasance even in a single bank will continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group may review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases may be admitted for restructuring with the approval of the Core Group only. The Core Group may ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

5.1.4 The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% of creditors (by number).

5.1.5 BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases may be eligible for restructuring under the CDR system if specifically recommended by the CDR Core Group. The Core Group shall recommend exceptional BIFR cases on a case-to-case basis for consideration under the CDR system. It should be ensured that the lending institutions complete all the formalities in seeking the approval from BIFR before implementing the package.

5.2 **Reference to CDR system**

5.2.1 Reference to Corporate Debt Restructuring System could be triggered by (i) any or more of the creditor who have minimum 20% share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

5.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks / FIs should review all eligible cases where the exposure of the financial system is more than Rs.100 crore and decide about referring the case to CDR system or to proceed under the new Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 or to file a suit in DRT etc.

5.3 **Legal Basis**

5.3.1 CDR is a non-statutory mechanism which is a voluntary system based on Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). The Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) shall provide the legal basis to the CDR mechanism. The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines. The ICA signed by the creditors will be initially valid for a period of 3 years and subject to renewal for further periods of 3 years thereafter. The lenders in foreign currency outside the country are not a part of CDR system. Such creditors and also creditors like GIC, LIC, UTI, etc., who have not joined the CDR system, could join CDR mechanism of a particular corporate by signing transaction to transaction ICA, wherever they have exposure to such corporate.

5.3.2 The Inter-Creditor Agreement would be a legally binding agreement amongst the creditors, with necessary enforcement and penal clauses, wherein the creditors would commit themselves to abide by the various elements of CDR system. Further, the creditors shall agree that if 75 per cent of creditors by value and 60 per cent of the creditors by number, agree to a restructuring package of an existing debt (i.e., debt outstanding), the same would be binding on the remaining creditors. Since Category 1 CDR Scheme covers only standard and substandard accounts, which in the opinion of 75 per cent of the creditors by value and 60 per cent of creditors by number, are likely to become performing after introduction of the CDR package, it is expected that all other creditors (i.e., those outside the minimum 75 per cent by value and 60 per cent by number) would be willing to participate in the entire CDR package, including the agreed additional financing.

5.3.3 In order to improve effectiveness of the CDR mechanism a clause may be incorporated in the loan agreements involving consortium / syndicate accounts whereby all creditors, including those which are not members of the CDR mechanism, agree to be bound by the terms of the restructuring package that may be approved under the CDR mechanism, as and when restructuring may become necessary.

5.3.4 One of the most important elements of Debtor-Creditor Agreement would be 'stand still' agreement binding for 90 days, or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still' whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period, this would be necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that it will not approach any other authority for any relief and the directors of the borrowing company will not resign from the Board of Directors during the stand-still period.

5.4 **Sharing of Additional finance**

5.4.1 Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. In case for any internal reason, any creditor (outside the minimum 75 per cent and 60 per cent) does not wish to commit additional financing, that creditor will have an option in accordance with the provisions of para 5.6.

5.4.2 The providers of additional finance, whether existing creditors or new creditors, shall have a preferential claim, to be worked out under the restructuring package, over the providers of existing finance with respect to the cash flows out of recoveries, in respect of the additional exposure

5.5 **Exit Option**

5.5.1 As stated in para 5.5.1 a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance will have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred interest as mentioned above, without compounding, will be payable along with the last instalment of the principal due to the creditor.

5.5.2 In addition, the exit option will also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders may be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

5.5.3 The lenders who wish to exit from the package would have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which would be decided mutually between the exiting lender and the taking over lender. The new lenders shall rank on par with the existing lenders for repayment and servicing of the dues since they have taken over the existing dues to the exiting lender.

5.5.4 In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS may not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS may be factored into the restructuring package.

5.6 **Category 2 CDR System**

5.6.1 There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions :

(i) It will not be binding on the creditors to take up additional financing worked out under the debt restructuring package and the decision to lend or not to lend will depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing loans will only be restructured and it would be up to the promoter to firm up additional financing arrangement with new or existing creditors individually.

(ii) All other norms under the CDR mechanism such as the standstill clause, asset classification status during the pendency of restructuring under CDR, etc., will continue to be applicable to this category also.

5.6.2 No individual case should be referred to RBI. CDR Core Group may take a final decision whether a particular case falls under the CDR guidelines or it does not.

5.6.3 All the other features of the CDR system as applicable to the First Category will also be applicable to cases restructured under the Second Category.

5.7 **Incorporation of 'right to recompense' clause**

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. All restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount should be recovered.

B SME Debt Restructuring Mechanism

Apart from CDR Mechanism, there exists a much simpler mechanism for restructuring of loans availed by Small and Medium Enterprises (SMEs). Unlike in the case of CDR Mechanism, the operational rules of the mechanism have been left to be formulated by the banks concerned. This mechanism will be applicable to all the borrowers which have funded and non-funded outstanding up to Rs.10 crore under multiple / consortium banking arrangement. Major elements of this arrangements are as under :

(i) Under this mechanism, banks may formulate, with the approval of their Board of Directors, a debt restructuring scheme for SMEs within the prudential norms laid down by RBI. Banks may frame different sets of policies for borrowers belonging to different sectors within the SME if they so desire.

(ii) While framing the scheme, Banks may ensure that the scheme is simple to comprehend and will, at the minimum, include parameters indicated in these guidelines.

(iii) The main plank of the scheme is that the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

(iv) Banks should work out the restructuring package and implement the same within a maximum period of 90 days from date of receipt of requests.

(v) The SME Debt Restructuring Mechanism will be available to all borrowers engaged in any type of activity.

(vi) Banks may review the progress in rehabilitation and restructuring of SMEs accounts on a quarterly basis and keep the Board informed.

Appendix 4

Disclosure of Restructured Accounts

Disclosure of Restructured Accounts

Sl. No.	Type of Restructuring		Under CDR Mechanism					Under SME Debt Restructuring Mechanism					Others					Total				
	Asset Classification		Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
	Details																					
1	Restructured Accounts as on April 1 of th	No. of borrowers																				
		Amount out																				

	e FY (opening figures)*	standing																				
		Provision thereon																				
2	Fresh restructuring during the year	No. of borrowers																				
		Amount outstanding																				

		standing																				
		Provision thereon																				
3	Upgradations to restructured standard	No. of borrowers																				
		Amount outstanding																				

	category during the FY	standing																				
		Provision thereon																				
4	Restructured standard advances which ce	No. of borrowers																				
		Amount out																				

	ase to attract higher provisioning and / or additional risk weight at the end of th	standing																				
		Provision thereon																				

	e FY and hence need not be shown as restructured standard advances at the be																					

	ginning of the next FY																					
5	Downgradations of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Pro																				

		vision thereon																				
6	Write-offs of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Pro																				

		vision thereon																				
7	Restructured Accounts as on March 31 of the FY (closing figur	No. of borrowers																				
		Amount outstanding																				
		Pro																				

	es *)	vi si o n th er e o n																				

* Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).

Annex-IV

Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries

1. The long tenor loans to infrastructure / core industries projects, say 25 years, could be structured as under:

i. The fundamental viability of the project would be established on the basis of all requisite financial and non-financial parameters, especially the acceptable level of interest coverage ratio (EBIDTA / Interest payout), indicating capacity to service the loan and ability to repay over the tenor of the loan;

ii. Allowing longer tenor amortisation of the loan (Amortisation Schedule), say 25 years (within the useful life / concession period of the project) with periodic refinancing (Refinancing Debt Facility) of balance debt, the tenor of which could be fixed at the time of each refinancing, within the overall amortisation period;

iii. This would mean that the NBFC, while assessing the viability of the project, would be allowed to accept the project as a viable project where the average debt service coverage ratio (DSCR) and other financial and non-financial parameters are acceptable over a longer amortisation period of say 25 years (Amortisation Schedule), but provide funding (Initial Debt Facility) for only, say, 5 years with refinancing of balance debt being allowed by existing or new lenders (Refinancing Debt Facility) or even through bonds; and

iv. The refinancing (Refinancing Debt Facility) after each of these 5 years would be of the reduced amounts determined as per the Original Amortisation Schedule.

2. NBFCs may finance fresh long term projects in infrastructure and core industries as suggested in paragraph 1 above provided that:

i. Only term loans to infrastructure projects, as defined under the Harmonised Master List of Infrastructure of RBI, and projects in core industries sector, included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India, (viz., coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel (Alloy + Non Alloy), cement and electricity - some of these sectors such as fertilisers, electricity generation, distribution and transmission, etc. are also included in the Harmonised Master List of Infrastructure sub-sectors) - will qualify for such refinancing;

ii. At the time of initial appraisal of such projects, NBFCs may fix an amortisation schedule (Original Amortisation Schedule) while ensuring that the cash flows from such projects and all necessary financial and non-financial parameters are robust even under stress scenarios;

iii. The tenor of the Amortisation Schedule should not be more than 80% (leaving a tail of 20%) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80% of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 80% of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects;

iv. The NBFC offering the Initial Debt Facility may sanction the loan for a medium term, say 5 to 7 years. This is to take care of initial construction period and also cover the period at least up to the date of commencement of commercial operations (DCCO) and revenue ramp up. The repayment(s) at the end of this period (equal in present value to the remaining residual payments corresponding to the Original Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. That repayment may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as Refinancing Debt Facility, and such refinancing may repeat till the end of the Amortisation Schedule;

v. The repayment schedules of Initial Debt Facility should normally correspond to the Original Amortisation Schedule, unless there is an extension of DCCO. In that case, in terms of extant instructions contained in DNBS.CO.PD.No.367/03.10.01/2013-14, dated January 23, 2014 and DNBR.CO.PD.No. 011/03.10.01/2014-15, dated January 16, 2015, mere extension of DCCO would not be considered as restructuring subject to certain conditions, if the revised DCCO falls within the period of two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively. In such cases the consequential shift in repayment schedule by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged or are enhanced to compensate for the delay and the entire project debt amortisation is scheduled within 85%[1] of the initial economic life of the project as prescribed in paragraph 2(iii) above;

vi. The Amortisation Schedule of a project loan may be modified once during the course of the loan (after DCCO) based on the actual performance of the project in comparison to the assumptions made during the financial closure without being treated as 'restructuring' provided:

a) The loan is a standard loan as on the date of change of Amortisation Schedule;

b) Net present value of the loan remains the same before and after the change in Amortisation Schedule; and

c) The entire outstanding debt amortisation is scheduled within 85%[2] of the economic life of the project as prescribed in paragraph 2 (iii) above;

vii. If the Initial Debt Facility or Refinancing Debt Facility becomes NPA at any stage, further refinancing should stop and the NBFC which holds the loan when it becomes NPA, would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

viii. NBFCs may determine the pricing of the loans at each stage of sanction of the Initial Debt Facility or Refinancing Debt Facility, commensurate with the risk at each phase of the loan, and such pricing should be as per the rate approved by its Board;

ix. NBFCs should secure their interest by way of proper documentation and security creation, etc.;

x. NBFCs will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

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[1] A relaxation of only 5% of initial economic life is provided in case of delay in achieving DCCO from the 80% ceiling of amortisation of project debt prescribed in paragraph 2(iii). NBFCs may factor the same while determining Original Amortisation Schedule

[2] Refer to Foot Note 1 above

xi. NBFCs should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other NBFCs/lenders, and should take this into account when estimating liquidity needs as well as stress scenarios. Further, unless the part or full refinancing by other NBFCs/lenders is clearly identified, the cash flows from such refinancing should not be taken into account for computing liquidity ratios. Similarly, once committed, the refinancing NBFC/lender should take into account such cash flows for computing their liquidity ratios; and

xii. NBFCs should have a Board approved policy for such financing.

3. Further, NBFCs may also flexibly structure the existing project loans to infrastructure projects and core industries projects with the option to periodically refinance the same as per the norms given below:

i) Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs.500 crore, in the infrastructure sector (as defined under the Harmonised Master List of Infrastructure of RBI) and in the core industries sector (included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India) will qualify for such flexible structuring and refinancing;

ii) NBFCs may fix a Fresh Loan Amortisation Schedule for the <u>existing project loans</u> once during the life time of the project, <u>after</u> the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

a. The loan is a standard loan as on the date of change of Loan Amortisation Schedule;
b. Net present value of the loan remains same before and after the change in Loan Amortisation Schedule;
c. The Fresh Loan Amortisation Schedule should be within 85 per cent (leaving a tail of 15 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and

d. The viability of the project is reassessed by the NBFC and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy dated March 21, 2014.

iii) If a project loan is classified as ‘restructured standard’ asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para 3(ii) above, while the current exercise of fixing the Fresh Loan Amortisation Schedule may not be treated as an event of ‘repeated restructuring’, the loan should continue to be classified as ‘restructured standard’ asset. Upgradation of such assets would be governed by the extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

iv) Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule will be governed by the extant restructuring norms;

v) NBFCs may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as refinancing debt facility, and such refinancing may repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at paragraph 3(ii) would not be applicable at the time of periodic refinancing of the project term loan;

vi) If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing should stop and the NBFC which holds the loan when it becomes NPA would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

vii) NBFCs may determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing should be as per the rate approved by the Board;

viii) NBFCs should secure their interest by way of proper documentation and security creation, etc.;

ix) NBFCs will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

x) NBFCs should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other lenders, and should take this into account when estimating liquidity needs as well as stress scenarios; and

xi) NBFCs should have a Board approved policy for such financing.

4. It is clarified that NBFCs may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'NPAs'. However, such an exercise would be treated as 'restructuring' and the assets would continue to be treated as 'NPA'. Such accounts may be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility would be permitted only when the account is classified as 'standard' as prescribed in the para 3(vi) above.

5. It is reiterated that the exercise of flexible structuring and refinancing should be carried out only after DCCO. Further, one of the conditions (para 7.2.2. (iii) of Annex-2 of Notification No.DNBS(PD).No.272/CGM(NSV)-2014, dated January 23, 2014, viz., "The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.") for availing special asset benefits under restructuring guidelines will cease to be applicable on any loan to infrastructure and core industries project covered under the ambit of this circular.

6. RBI will review these instructions at periodic intervals.

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Annex V

Branch details Of NBFCs

VALIDATE FORM | EDIT FORM

ADD BRANCH | DELETE BRANCH

Company Name			Company code number (as given by RBI)						
Sr. No.	Branch Name	Branch Address	City	District	State	Opening Date (dd/mm/yyyy)	Closing Date (dd/mm/yyyy)	Amount Of Public Deposit (*) Rs. In lakhs	Remarks
1									

* - This column is to be filled only by deposit taking companies, else substitute '0' in place.

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI 400 005

Notification No.DNBR. 010/ CGM (CDS)-2015 dated March 27, 2015

The Reserve Bank of India, having considered it necessary in 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 amend the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 (Notification No. DFC.118/ DG(SPT)-98 dated January 31, 1998) (hereinafter referred to as the said Directions), in exercise of the powers conferred by section 45J, 45K, 45L and 45MA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely –

1. **In paragraph 4,**

(i) in sub-paragraph (1), the existing proviso to clause (i), shall be substituted by the following new proviso, namely,-

“Provided that in case of an unrated asset finance company, it shall obtain the minimum investment grade or other specified credit rating on or before March 31, 2016. Those AFCs that do not get a minimum investment grade rating by March 31, 2016, shall not renew existing deposits or accept fresh deposits thereafter. In the intervening period, i.e. till March 31, 2016, unrated Asset Finance Companies or those with a sub-investment grade rating shall only renew the existing deposits on maturity, and shall not accept fresh deposits, till they obtain an investment grade rating”.

(ii) sub-paragraph(4) shall be modified as under–

“an asset finance company or a loan company or an investment company

(a) having minimum NOF as stipulated by the Reserve Bank, and

(b) complying with all the prudential norms,

may accept or renew public deposit, together with the amounts remaining outstanding in the books of the company as on the date of acceptance or renewal of such deposit, not exceeding one and one-half times of its NOF.”

“**Provided** that an asset finance company holding public deposits in excess of the limit of one and one-half times of its NOF shall not renew or accept fresh deposits till such time they reach the revised limit”.

(iii) sub-paragraph (5) shall be modified as under-

“In the event of downgrading of credit rating below the minimum specified investment grade as provided for in paragraph 4(1), a non-banking financial company, being an asset finance company or a loan company or an investment company, shall regularise the excess deposit as provided hereunder;

(a) with immediate effect, stop accepting fresh public deposits and renewing existing deposits;

(b) all existing deposits should runoff to maturity; and

(c) report the position within fifteen working days, to the concerned Regional Office of the Reserve Bank of India where the NBFC is registered.

(C D Srinivasan)
Chief General Manager

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI 400 005

Notification No. DNBR. 011/ CGM (CDS) -2015 dated March 27, 2015

The Reserve Bank of India, having considered it necessary in 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 amend the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007(Notification No.DNBS.192/ DG(VL)-2007 dated February 22, 2007) (hereinafter referred to as the said Directions), 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, hereby directs that the said Directions shall be amended with immediate effect as follows –

1. In paragraph 2, sub-paragraph (1),-

(A) after clause (iv), the following proviso shall be inserted -

"Provided that the period 'exceeding 18 months' stipulated in this clause shall be 'exceeding 16 months', for the financial year ending March 31, 2016; 'exceeding 14 months', for the financial year ending March 31, 2017 and 'exceeding 12 months', for the financial year ending March 31, 2018 and thereafter."

(B) in clause (xiii),

(i) after sub clause (f), the following proviso shall be inserted, namely, –

"Provided that the period of 'six months or more' stipulated in sub- clauses (a) to (f) of this clause shall be 'five months or more' with for the financial year ending March 31, 2016; 'four months or more' for the financial year ending March 31, 2017 and 'three months or more' for the financial year ending March 31, 2018 and thereafter."

(ii) after sub clause (g), the following proviso shall be inserted, namely, -

"Provided that the period of 'twelve months or more' stipulated in this sub-clause shall be 'nine months or more' for the financial year ending March 31, 2016; 'six months or more' for the financial year ending March 31, 2017 and 'three months or more', for the financial year ending March 31, 2018 and thereafter."

(C) in clause (xvi), after sub-clause (a), the following proviso shall be inserted, namely, -

"Provided that the period 'not exceeding 18 months' stipulated in this sub-clause shall be 'not exceeding 16 months' for the financial year ending March 31, 2016; 'not exceeding 14 months' for the financial year ending March 31, 2017 and 'not exceeding 12 months' for the financial year ending March 31, 2018 and thereafter".

2. **After paragraph 9A**, the following proviso shall be inserted –

"Provided that the provision for standard assets shall be 0.30 percent as on March 31, 2016; 0.35 percent as on March 31, 2017; 0.40 percent as on March 31, 2018 and thereafter".

3. **Paragraph 11** shall be omitted.

4. **In paragraph 16,**

(i) **for sub-paragraph (1),** the following shall be substituted, namely, -

"(1) Every non-banking financial company shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.".

(ii) **for sub-paragraph (2),** the following shall be substituted, namely, -

“(2) The total Tier I capital, at any point of time shall not be less than 8.5 percent by March 31, 2016 and 10 percent by March 31, 2017.

5. **In paragraph 20**, in sub-paragraph (1), the third proviso shall be omitted.

(C D Srinivasan)
Chief General Manager

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI 400 005

Notification No.DNBR.012/ CGM (CDS)-2015, dated March 27, 2015

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Reserve Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Non-Banking Financial Company – Factor (NBFC-Factor) from being conducted in a manner detrimental to the interest of investors or in any manner prejudicial to the interest of such NBFC – Factors, it is necessary to amend the Non-Banking Financial Company – Factor (Reserve Bank) Directions, 2012 (Notification No. DNBS. PD.No.247/ CGM(US)-2012 dated July 23, 2012) in exercise of the powers conferred under Section 3 of the Factoring Regulation Act, 2011, hereby directs that the said Directions shall be amended with immediate effect as follows –

1. *For Paragraph 6 following shall be substituted –*

6. Principal Business

"An NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least 50 per cent of its total assets and the income derived from factoring business is not less than 50 per cent of its gross income".

(C D Srinivasan)
Chief General Manager