	प्रेस प्रकाशनी PRESS RELEASE
प्रेस सम्पर्क प्रभाग, केंद्रीय कार्यालय, पोस्ट बॉक्स 406, मुंबई 400 001 फोनः 2266 0502 फैक्सः 2266 0358, 2270 3279	भारतीय रिज़र्व बैंक **RESERVE BANK OF INDIA**
PRESS RELATIONS DIVISION, Central Office, Post Box 406, Mumbai 400001 Phone: 2266 0502 Fax: 2266 0358, 2270 3279	www.rbi.org.in www.rbi.org.in\hindi e-mail: helpprd@rbi.org.in

12 May 1998

DNBS PD NO.CC 06/02.01/97-98 dated May 12, 1998 issued to All Non- Banking Financial Companies and Residuary Non-Banking Companies (having Net Owned Fund of Rs.25 lakh and above)

Dear Sir,

Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 - Amendments -

Please refer to the Notification No.DFC.119/DG (SPT)-98 dated January 31, 1998 in terms of which Prudential Norms Directions were issued to NBFCs and RNBCs for mandatory compliance.

2. The Institute of Chartered Accountants of India (ICAI) expressed a view that valuation of Investments should be in alignment with the Accounting Standards issued by it and that there is a need to consider the value of underlying security for the purpose of provisioning. In consultation with ICAI, it has been decided to introduce certain modifications in the norms for accounting for investments and provisioning against non-performing assets (NPAs). The modifications are intended to bring the prudential norms in alignment with the accounting standard issued by the ICAI. The details of modifications are as under :

(1) Income recognition norms

As per the earlier norms, the income recognised in respect of hire purchase/leased asset before such asset became NPA is required to be reversed/fully provided for. No such reversal of income was, however, envisaged in respect of loans, advances and other credit facilities under the earlier norms. Under the revised norms, NBFCs have been mandated to reverse the income, discount or any other charges in respect of loans, advances and other credit facilities also, which has been recognised and taken to the credit of profit and loss account before such assets became NPAs and remaining unrealised.

(2) Accounting for investments

The earlier bifurcation of long term investments into quoted and unquoted investments has been done away with. Under the modified norms, the unquoted equity shares in the nature of current investments only are required to be valued at cost or break up value. The companies also have the option to value these shares at their fair value. However, all the long term investments including unquoted equity/preference shares and units of mutual funds shall be valued as per the Accounting Standard issued by ICAI in terms of which such investments could be carried in the books at cost, if the decline in the value of quoted investments is not permanent.

(3) Provisioning norms for non-performing hire purchase and leased assets

The earlier norms did not take into account the value of underlying asset for the purpose of provisions against hire purchase and leased assets. Accordingly, the entire amount of overdue instalments net of the finance charges/income not taken to the credit of profit and loss account was to be fully provided for. Under the revised norms, due credit has been given to the realisable value of the underlying asset. The provisioning requirements in respect of the hire purchase and leased assets would now be as under :

(i) Hire purchase assets

(a) finance charges/income taken to the credit of profit and loss account before the asset became NPA and remaining unrealised shall be reversed;

(b) the provisions equivalent to the deficit between the total dues (overdues and future instalments taken together) and the lower of depreciated or net realisable value of the underlying assets shall be made; and

(c) additional provision shall be made at the specified rate on net book value (NBV). The NBV has been redefined to mean the aggregate of capital at risk including the sundry debtors to the extent it has not been provided for.

(ii) Leased assets

(a) statutory depreciation on the leased asset at the rate applicable under Schedule XIV of the Companies Act, 1956 shall be charged to the profit and loss account as per extant provisions;

(b) finance income (Gross lease rentals - statutory depreciation +/- lease adjustment account) taken to the credit of profit and loss account before the asset became NPA shall be reversed;

(c) additional provision shall be made at the specified rate on net book value (NBV). The NBV has been redefined to mean the aggregate of the depreciated book value of the underlying asset and the sundry debtors to the extent it has not been provided for.

(iii) It has also been prescribed that if any NPA remains on the books of the NBFC after the expiry of the prescribed repayment schedule, the entire book value should be provided for within a period of one year from the due date of the last instalment payable. For example, in the case of leased asset where lease rentals are to be recovered over a period of 4 years, becomes NPA in its fourth year, it could be provided for in stages within the next three years i.e. three years beyond the recovery period. In terms of paragraph 8(2)(iii) of the directions, the book value of such an asset should be fully provided for by the end of fifth year i.e. one year after the expiry of repayment schedule. In other words, an NPA cannot remain on the balance sheet of the NBFC beyond one year after the expiry of original repayment schedule.

(4) Risk weights on on-balance sheet items

At present, the investments by NBFCs in the bonds of scheduled commercial banks and fixed deposits (FDs)/ certificates of deposits (CDs)/bonds of public financial institutions (PFIs) and other public sector undertakings (PSUs) attract 100 per cent risk weights. Some of the RNBCs which are required to make investment in these securities as per the provisions of Residuary Non-Banking Companies (Reserve bank) Directions, 1987 [RNBC directions] had requested us for assigning lower risk weights on such investments because of low risk factors. Considering the merit of the representations, it has been decided that the bonds of public sector banks and FDs/CDs/Bonds of PFIs shall carry 20 per cent risk weights as against 100 per cent, at present. However, the bonds issued by private sector banks and other Government companies/public sector undertakings shall continue to carry 100 per cent risk weights as hitherto, if they are not guaranteed by the Central or state governments.

(5) Credit/Investment Concentration norms for RNBCs

In terms of the provisions of RNBC directions, the RNBCs are required to make investments of the deposit funds in the securities issued by certain specified institutions to provide security for their depositors. Considering that only select few institutions have been specified for the purpose, some of the RNBCs have represented to us that they find it difficult sometimes to adhere to the Investment Concentration Norms prescribed by us. In view of the above, it has been decided that the investment concentration norms shall not be applicable to RNBCs in respect of investments required to be made by them in approved securities, bonds, debentures and other securities issued by a Government company or a public financial institution or a public sector bank, in terms of the provisions of RNBC directions.

(6) Default in repayment of public deposits - NBFCs prohibited from making loans and investments

The Companies Act, 1956 has been amended by the Government of India prohibiting the non-financial companies which default in repayment of deposits accepted by them under Section 58A of the Companies Act from making inter-Corporate loans/ investments under Section 370 and 372 of the Companies Act. It has been considered necessary to institute a similar provision for the non-banking financial companies in order to further strengthen the protection of the interest of the depositors. Accordingly, the Bank has directed the NBFCs not to create any asset including by grant of loans or making investments in any manner until the default, if any, in repayment of public deposits or any part thereof which have matured and fallen due for repayment as per the terms of acceptance of deposits exists.

3. Commencement

While the modified norms referred to in paragraphs 2(1) and 2(6) above shall come into effect immediately, those referred to in other paragraphs shall be deemed to have come into force retrospectively with effect from January 31, 1998.

4. A copy of the notification No.DFC.125/ED(G) dated May 9, 1998 is enclosed for compliance.

5. Please acknowledge receipt of this letter to the General Manager/Deputy General Manager of the Regional Office of DNBS under whose jurisdiction your company is located.

Yours faithfully,

(V.S.N. Murty)
Chief General Manager