प्रेस प्रकाशनी PRESS RELEASE

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Clarifications on New Regulatory Framework for NBFCs

The Reserve Bank of India announced the new regulatory framework for non-banking finance companies (NBFCs) on January 2, 1998. Certain issues have been raised about the operational aspects of the new framework. The objective of this press release is to provide clarifications on the new regulatory framework.

Queries and Answers

Definition of public deposits

Q 1. Are the following types of deposits included in the definition of public deposits?

- unsecured debentures
- ICDs
- security deposits from employees
- EMI received in advance against lease/hire purchase finance

A. The unsecured debentures issued to the shareholders by a public limited company and to the general members of public are reckoned within the definition of `public deposits'. The unsecured debentures issued to other companies and banks/all India financial institutions are not public deposits. However, other borrowings by way of ICDs, security deposits from employees (provided they are deposited in a bank or a post office jointly with the employee) and advance receipt of lease or hire purchase instalments are exempted borrowings, outside the purview of public deposits.

Ceiling on deposits

Q. 2. The earlier ceiling on borrowings by NBFCs was 10 times the NOF. What are the present ceilings?

A. The NBFCs in the category of equipment leasing and hire purchase finance companies were allowed to accept deposits and raise borrowings upto 5/7/10 times of their NOF or without any ceiling depending upon their compliance with the regulatory framework. The ceilings included, inter-alia, the deposits from public, borrowings by way of ICDs, issue of non-convertible debentures and finance from banks/specified financial institutions. As per the new regulatory framework, which aims to regulate the quantum of public deposits, only borrowings from other avenues have been freed from any regulations under NBFC Directions. There is also no overall ceiling prescribed in the Directions. However, there would be an inbuilt ceiling on the total borrowings of the

NBFCs accepting deposits from public because they are enjoined upon to maintain a capital adequacy ratio of 10 per cent of their risk weighted assets effective from 31.3.1998 and 12 per cent w.e.f. 31.3.1999. Their capacity to create assets and raise corresponding borrowings is restricted because of capital adequacy.

Time frame for compliance of regulations

Q. 3. How will the NBFCs meet the stipulation of bringing down their deposit portfolio in alignment with the new regulation by December 31, 1998?

A. The NBFCs have been permitted to regularise their excess deposits upto 31.12.1998. Within this period, the NBFCs are expected to shore up their NOF, obtain or improve their credit rating, substitute public deposits by borrowings from other avenues. It may be clarified here that RBI does not intend to order the NBFCs to prematurely repay their deposits. The NBFCs may pay their deposits only on maturity. If the deposits accepted before January 2, 1998 are maturing after December 31, 1998 and the concerned NBFC holds these deposits in excess of its entitlements, this would not tantamount to violation of the RBI directions. Moreover, RBI has an open mind and if any company faces genuine difficulty in adhering to the timeframe, RBI is committed to give more time as already mentioned in the directions for compliance of the regulations.

Credit Rating

Q. 4. Are companies having ratings less than A eligible to accept public deposits?

A. The NBFCs having rating of less than `A' or equivalent thereof are no longer entitled to receive public deposits. It may be added that A- is not equivalent to A, AA- is not equivalent to AA and AAA- is not equivalent to AAA.

Q. 5. Can an NBFC accept public deposit which is yet to be rated ?

A. The requirement of minimum credit rating of the level of `A' has been made mandatory for accessing public deposits. Accordingly, if any company is not yet rated, it is not entitled to raise deposits from public in any manner.

Q. 6. If an NBFC obtains ratings from two rating agencies and both are different, which rating would be considered valid for determining the level of deposits it can solicit?

A. An NBFC intending to accept deposits from public must obtain credit rating from any one of the approved credit rating agencies. A company that has been rated by two agencies, is free to use the rating beneficial to it. If, however, there is a big divergence between the two ratings, RBI would take up the matter with both the credit rating agencies to review and rationalise their opinion about the company's rating.

Q. 7. When a company is downgraded, does it have to bring down its level of public deposits immediately or over a period of time?
A. If an NBFC is downgraded, the NBFC has to bring down its deposits to the level to which it is now entitled. If the amount of deposits is in excess of the new ceiling, the company should stop accepting fresh deposits. One year period has been allowed under the NBFC directions to regularise such excess deposits. This period can be further extended on merits.

Liquid Asset requirement

Q. 8.What is the ratio of liquid asset requirement and the base of deposits to which the liquid asset are linked ?

A. The liquid asset requirement between January 1 and March 31, 1998 is 10 per cent and 5 per cent of the regulated deposits outstanding as on September 30, 1997 for equipment leasing/hire purchase finance companies and loan/investment companies registered under the erstwhile registration scheme and unregistered loan/investment companies, respectively. However, on and from April 1, 1998, the requirement of liquid assets would be uniform for all these NBFCs at 12.5 per cent of the "public deposits".

Classification of companies

Q. 9. The criteria for classification into equipment leasing/hire purchase finance has been modified and increased to 60 per cent of its assets and income. Will it not cause difficulties to the companies ?

A. The NBFCs have been allowed sufficient time period to achieve the ratio of 60 per cent of its total assets and total income from these activities taken together. The audited balance sheet of the company as on March 31, 1999 or for subsequent period will be the basis for classification or reclassification of an NBFC into appropriate category i.e. an equipment leasing company or a hire purchase finance company, or a loan company or an investment company. Till then the existing norm of 51 per cent lease and hire purchase assets and 1/3rd of the income out of the said two activities will continue. The companies whose bonafide intention is to carry on predominantly as a leasing/hire purchase finance company, is not expected to face much difficulties in achieving these norms.

RNBCs

Q. 10. Why regulations have not been framed for another class of NBFCs viz. RNBCs ?

A. The deposit acceptance activities of another class of NBFCs popularly known as RNBCs are entirely different from those of the NBFCs in terms of method of mobilisation of deposits and requirement of deployment of depositors' funds. These companies are enjoined upon to invest not less than 80 per cent of their aggregate deposit liabilities in the prescribed investment pattern. Only 20 per cent of the deposits or ten times the NOF, whichever is lower, can be deployed in other assets. Historically these companies have negative or negligible NOF and as such they are obliged to invest the entire deposit funds as directed by RBI. Action is taken against the erring RNBCs and more than 200 such companies have so far been prohibited from accepting deposits.

The objective of the new framework is to ensure protection of depositors while maintaining the viability and healthy and orderly growth of the NBFCs. The Reserve Bank of India welcomes any further suggestions and queries which require clarifications on the new regulatory framework for NBFCs. Discussions have been held with three associations of NBFCs and the issues raised by them are being looked into.

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