



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Liquid Assets for NBFCs

The Reserve Bank of India today announced with immediate effect certain refinements in the percentage of liquid assets to be maintained by non-banking financial companies.

Quantum

In terms of the provisions of Section 45IB of the Reserve Bank of India Act, 1934, the NBFCs are required to maintain liquid assets equivalent to 10 per cent of their deposit liabilities in the specified approved securities, viz., government securities and government guaranteed bonds. The loan and investment companies which are required to maintain reduced percentage of liquid assets at 7.5 per cent under the existing provisions of the Non-Banking Financial Companies (Reserve Bank) Directions 1977 shall, however, continue to invest not less than 5 percent of their deposit liabilities in such approved securities as hitherto. The residuary non-banking companies are also required to continue maintaining liquid assets of not less than 10 percent of their total liabilities to depositors in the government securities and government guaranteed bonds.

Date of reference

The date with reference to which the liquid assets will have to be maintained has also been specified. The NBFCs are required to maintain the prescribed liquid assets on each day of the relevant quarter on the basis of their deposit liabilities out standing on the last working day of the second preceding quarter. For example, the liquid assets to be maintained during the quarter ended June 30, 1997 shall be related to the deposit liabilities as on the last working day of the quarter ended December 31, 1996. Thus, NBFCs have been allowed time to assess the need for such investments sufficiently in advance and comply with the requirement.

The earlier requirement of NBFCs making investments (of two and one-half per cent or five per cent of the deposits, as applicable) in other specified assets such as balances with banks and trustee securities has been discontinued.

Returns

The Reserve Bank has also prescribed a format for reporting the compliance with the requirement of liquid assets on a quarterly basis. NBFCs are required to submit a return indicating the position of deposits vis-a-vis such investments at the end of every quarter within a period of 15 days of the month succeeding the quarter to which it relates. The format will be available at the Financial Companies Wing of the concerned Regional Offices of the Department of Supervision.

Penalty

For the failure of NBFCs to maintain the required percentage of assets in the specified manner, the Reserve Bank has powers to impose penalty at the rate of three per cent per annum above the bank rate on the amount of shortfall on any day during the quarter and if the shortfall continues in the subsequent quarter/s, at five per cent per annum above the bank rate on the amount of shortfall for each subsequent quarter during which the default continues.

Background

The Government of India had issued the Reserve Bank of India (Amendment) Ordinance, 1997 on January 9, 1997 which has since been replaced by the RBI (Amendment) Act. The provisions of the RBI Act stipulate the requirement of maintenance of assets in the approved securities whose market value shall not be less than 5 per cent or such higher percentage not exceeding 25 per cent as the Reserve Bank may specify, of the deposits outstanding at the end of the last working day of the second preceding quarter. The above changes have been announced by the Reserve Bank in terms of the amended provisions of Section 45IB of the RBI Act, 1934.

(Alpana Killawala)
Deputy General Manager

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