

NBFC Regulations modified

March 29, 2003

Balance sheet format

The Reserve Bank of India has today asked all Non-Banking Financial Companies (NBFCs) to attach, effective from the financial year ending March 31, 2003, a schedule to their balance sheet and give certain additional particulars. The Reserve Bank has prescribed a format prescribed for the schedule which includes information on borrowerwise and investorwise exposure to related parties, position of non-performing assets and business levels in lease and hire purchase and other activities. These particulars were so far not available in the balance sheet of NBFCs. These instructions are applicable to the following NBFCs, viz., equipment leasing, hire purchase finance, loan, investment and residuary non-banking companies (RNBCs). The information would help the regulators, depositors and other users of balance sheet in taking informed decisions. The Reserve Bank has not changed the basic structure of balance sheet which will continue to be prepared as per Schedule 6 of the Companies Act, 1956.

Investments by RNBCs

The Reserve Bank has also stated that from April 1, 2003, the individual ceiling of two per cent of aggregate deposit liabilities applicable to RNBCs for their investments in units of mutual funds, will also be applicable to units of Unit Trust of India. The overall investment in all mutual funds by RNBCs would, however, continue to be not more than 10 per cent of their aggregate deposit liabilities. The investments of RNBCs in the UTI schemes as on March 31, 2003 would continue to be part of securities as defined by RNBC Directions till their divestment. The Reserve Bank has stated that the provisions of RNBC Directions have been amended to this effect.

Background

The Reserve Bank has decided to amend the directions for regulating the activities of NBFCs, pursuant to certain changes that were felt necessary on the basis of the recommendations of the Working Group on Redesigning of Financial Statements of Non-Banking Financial Companies. Keeping in view the comments received on these recommendations and other developments in the financial system, namely, amendments to the Companies Act, 1956, issue of new accounting standards by the Institute of Chartered Accountants of India, etc., the Reserve Bank has now decided that effective from the balance sheet as on March 31, 2003 all NBFCs (irrespective of whether they hold public deposits or not) should attach a schedule to the balance sheet containing additional particulars as per the prescribed format.

In terms of the RBI directions, Residuary Non-Banking Companies were allowed to invest in the units of Unit Trust of India (UTI) and other mutual funds upto 10 per cent of their aggregate deposit liabilities. This investment was subject to the condition that the investment in any one mutual fund did not exceed two per cent of their aggregate deposit liabilities. The

individual ceiling of two per cent for investment in any one mutual fund was, however, not applicable to RNBCs' investments in UTI schemes.

Subsequent to the bifurcation of the Unit Trust of India, the mutual fund activities of UTI would be governed by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 like any other mutual fund. As such, it was decided to do away with the special treatment to investments in UTI.

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