

RBI to consider gross assets and gross income For identification of principal business of an NBFC

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The Reserve Bank of India today announced that in order to identify a particular company as a non-banking financial company (NBFC), it will consider both, the assets and the income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. The company will be treated as an NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets should be more than 50 per cent of the gross income. Both these tests are required to be satisfied as the determinant factor for principal business of a company.

Background

Any company which carries on the business of a non-banking financial institution as its principal business as defined in Section 45I© read with Section 45I(f) of the Reserve Bank of India Act, 1934 is to be treated as an NBFC. Any company which carries on the principal business of agricultural activities, industrial activities, trading in commodities, dealing in immovable properties, etc., is, however, not a financial institution. Since the term 'principal business' has not been defined in law, the Reserve Bank has now decided the description of principal business for the purpose of identification of an NBFC. It is more relevant in view of the statutory provisions that an NBFC require compulsory registration with the Reserve Bank to commence or carry on the financial business as the case may be. NBFCs incorporated before January 9, 1997 should have applied for such a Certificate of Registration within six months ending on July 8, 1997 to enable them to carry on their business of financial nature. NBFCs incorporated on or after January 9, 1997 are not allowed to commence the business of financial activities without obtaining a Certificate of Registration from the Reserve Bank. The auditors of all NBFCs are required to report directly to the Reserve Bank the non-compliance by any company of the above statutory provisions.

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