RBI/2010-11/28

DNBS (PD) CC No. /188 03.10.001 / 2010-11 **July 1, 2010**

To

All Non-Banking Financial Companies (NBFCs)

Dear Sir,

Master Circulars- Miscellaneous Instructions to NBFC- ND-SI

In order to have all current instructions in one place, the Reserve Bank of India has consolidated all the instructions issued during the year ended June 30, 2010. The circular seeks to consolidate all instructions issued exclusively to NBFC-ND-SI i.e. other than those which have been consolidated in Master Notification on Prudential Norms and Master Circular - compendium of instructions issued to NBFCs. A consolidated list of all instructions issued under various subjects is compiled for ready reference. The compendium of circulars has also been placed on the RBI web-site (http://www.rbi.org.in). A copy of the compendium is enclosed.

Yours sincerely

(Uma Subramaniam)

Chief General Manager-in-Charge

1. Financial Regulation of Systemically Important NBFCs and Banks' Relationship with them

The Reserve Bank of India had set up an Internal Group to examine the issues relating to level playing field, regulatory convergence and regulatory arbitrage in the financial sector. Based on the recommendations of the Internal Group and on the basis of the feedback received, final guidelines were issued for implementation on December 12, 2006.

Modifications to the Regulatory Framework

In the light of the concerns that arise out of the divergent regulatory requirements for various aspects of functioning of banks and NBFCs and keeping in view the broad principles for the proposed revision, the following modifications were made in the regulatory framework for NBFCs.

A. Regulatory Framework for Systemically Important NBFCs – ND (NBFC – ND – SI)

(i) Determination of NBFC – ND – SI

All NBFCs – ND with an asset size of Rs. 100 crore and more as per the last audited balance sheet will be considered as a systemically important NBFC **–** ND (NBFC-ND-SI).

(ii) Capital Adequacy Ratio for NBFCs – ND – SI

NBFCs – ND – SI shall maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 10% which was changed to 12% as on March 31, 2010 and 15% as on March 31, 2011.[1] The present minimum CRAR stipulation at 12 % or 15%, as the case may be, for NBFCs – D shall continue to be applicable.

[1] Amended vide CC 138 dated April 2`4, 2009 and Notification No 206 dated May 26, 2009

(iii) Single / Group Exposure norms for NBFCs – ND – SI

Exposure norms were laid down for NBFC-ND-SIs.

Further, the NBFCs – ND – SI were advised to have a policy in respect of exposures to a single entity / group. NBFCs-ND-SI not accessing public funds both directly and indirectly can apply to the Reserve Bank for an appropriate dispensation consistent with the spirit of the exposure limits.

B. Additional Single Exposure norms for Asset Finance Companies

(iv) In terms of circular DNBS.PD.CC.No.85/03.02.089/2006-2007 dated December 6, 2006, companies financing real/physical assets for productive /economic activity will be classified as Asset Finance Companies (AFCs) as per the criteria prescribed therein.

In addition to the single party and single group of parties exposure norms prescribed for NBFCs-D and NBFCs-ND-SI, AFCs are permitted to exceed the exposure to a single party and single group of parties up to a further 5 percent of their owned fund in exceptional circumstances with the approval of their Boards.

C. Expansion of activities of NBFCs through automatic route

(v) NBFCs set up under the automatic route will be permitted to undertake only those 18 activities[2] which are permitted under the automatic route. Diversification into any other activity would require the prior approval of FIPB. Similarly a company which has entered into an area permitted under the FDI policy (such as software) and seeks to diversify into NBFC sector subsequently would also have to ensure compliance with the minimum capitalization norms and other regulations as applicable.

[2] Changed vide Press Note No 1 dated March 12, 2008

Effective date and transition

Taking into account the likelihood that some of the NBFCs may not be in compliance with some of the elements of the revised regulatory framework a transition period up to end March 2007 was provided. Accordingly, NBFCs had to comply with all elements of the revised framework with effect from April 1, 2007. In case any NBFC – ND – SI needed more time for compliance, it had to apply to DNBS before the close of business on January 31, 2007 clearly indicating the reasons for which it is not able to ensure compliance within the above period and the time frame within which it would be able to comply with all the relevant elements.

Scope of application to certain categories

The guidelines contained in this circular are applicable to the NBFCs as specified in the relevant paragraphs except the categories mentioned below:

i). The Residuary Non Banking Companies(RNBCs) and Primary Dealers (PDs) as they are subjected to a separate set of regulations.

ii).Government owned companies, as defined under Section 617 of the Companies Act, which are registered with the Reserve Bank of India as NBFCs, are exempted from certain provisions of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, at present. It is proposed to bring all deposit taking and systemically important government owned companies under the provisions of the said Directions which will be in conformity with the existing guidelines, including those contained in this circular. However, the date from which they are to fully comply with the regulatory framework will be decided later. These companies, were therefore, required to prepare a roadmap for compliance with the various elements of the NBFC regulations, in consultation with the Government, and submit the same to the Reserve Bank (Department of Non Banking Supervision – (DNBS)), by March 31, 2007[3].

2. Supervisory Framework for Systemically Important non-deposit taking/holding NBFCs (NBFC-ND-SI)

To ensure adherence to compliance with the regulatory framework for Systemically Important NBFCs – ND such companies were advised to put in place a system for submission of an annual statement of capital funds, risk asset ratio etc., as at end of March every year in form NBS-7 as per prescribed format. The first such return was to be submitted for the year ending March 31, 2007. The return may be submitted within a period of three months from the close of the financial year, every year.

Such returns are to be submitted electronically and for the purpose, NBFC-ND-SI has to approach the Information Division of Central Office of this Department for assignment of user-id and password for web-enabled submission of the return . A hard copy of the return duly signed by the designated authority may be filed with the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the company is registered. [4]

3. Guidelines for NBFC-ND-SI as regards capital adequacy, liquidity and disclosure norms

On a review of the experience with the regulatory framework since April 2007, it was felt desirable to enhance the capital adequacy requirement and put in place guidelines for liquidity management and reporting, as also norms for disclosures. Accordingly, the

[3] For details please refer to DNBS.PD/ CC No. 86/ 03.02.089/2006-07 dated December 12, 2006
[4] (Details are in DNBS.PD/ CC.No. 93 / 03.05.002 /2006-07 April 27, 2007)

Bank placed on its web-site on June 2, 2008, the draft guidelines for NBFCs-ND-SI as regards the above aspects for receiving the comments of the public. These guidelines were finalized and issued as Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.[5]

(i) Capital adequacy

The Capital adequacy for NBFC-ND-SI was enhanced to 12% as on March 31, 2010 and 15% as on March 31, 2011.[6]

(ii) Disclosure in the Balance Sheet

The disclosure norms in respect of NBFCs-ND-SI have been reviewed and it has been decided that such Systemically Important NBFCs-ND shall make additional disclosures in their Balance Sheet from the year ending March 31, 2009 relating to:

Capital to Risk Assets Ratio (CRAR)

Exposure to real estate sector, both direct and indirect; and

Maturity pattern of assets and liabilities

The format of disclosure of this additional information is furnished in Company Circular DNBS (PD). CC. No. 125/03.05.002 / 2008-2009 dated August 1, 2008

4. Asset Liability Management (ALM) – Reporting

NBFC-ND-Sis are required to submit three ALM returns i.e. ALM 1,ALM-2 and ALM-The periodicity of the Statement of short term dynamic liquidity [NBS-ALM1] shall be monthly and that of Statement of structural liquidity [NBS-ALM2] half-yearly. The frequency of Statement of Interest Rate Sensitivity [NBS-ALM3] would be half yearly, The Bank has

[5] (Notification No. DNBS. 200 / CGM(PK)-2008 dated August 1, 2008)

[6] Modification made vide Circular DNBS.PD/CC.No.138 /03.02.002 / 2008-2009 dated April 24, 2009

since hosted the format of the ALM Returns (I, II and III) on the Bank's following website (https://cosmos.rbi.org.in).

(Details are given in DNBS (PD).CC.No.125/03.05.002/2008-2009 dated August 1, 2008 and in DNBS.PD.CC. No.169 /22.05.02/2009-10 dated April 22, 2010)

5. Enhancement of NBFCs' capital raising option for capital adequacy purposes

Taking into consideration, the need for enhanced funds for increasing business and meeting regulatory requirements, it has been decided that Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFCs-ND-SI) may augment their capital funds by issue of Perpetual Debt Instruments (PDI) in accordance with the guidelines contained in the circular. Such PDI shall be eligible for inclusion as Tier I Capital to the extent of 15% of total Tier I capital as on March 31 of the previous accounting year.

(Details are given in DNBS (PD) CC. No.131 /03.05.002 / 2008-2009 dated October 29, 2008)

6. Ratings of NBFCs

NBFCs also issue financial products like Commercial Paper, Debentures etc. to which rating is assigned by rating agencies. The ratings assigned to such products may undergo changes for various reasons ascribed to by the rating agencies. It has therefore been decided that all NBFCs (both deposit taking and non-deposit taking) with asset size of Rs 100 crore and above shall furnish the information about downgrading / upgrading of assigned rating of any financial product issued by them, within fifteen days of such a change in rating, to the Regional Office of the Bank under whose jurisdiction their registered office is functioning.

[DNBS (PD) CC. No.134/03.10.001 / 2008-2009 dated February 04, 2009]

7. Criteria for deciding NBFC-ND-SI status

A non-deposit taking NBFC with an asset size of less than Rs. 100 crore as on balance sheet date might subsequently add on assets before the next balance sheet date due to several reasons including business expansion plan. It is clarified that once an NBFC reaches an asset size of Rs. 100 crore or above, it shall come under the regulatory requirement for NBFCs-ND-SI as stated above, despite not having such assets as on the date of last balance sheet. Therefore, it is advised that all such non-deposit taking NBFCs may comply with RBI regulations issued to NBFC-ND-SI from time to time, as and when they attain an asset size of Rs. 100 crore, irrespective of the date on which such size is attained.

It is further observed that in a dynamic environment, the asset size of a company can fall below Rs 100 crore in a given month, which may be due to temporary fluctuations and not due to actual downsizing. It is clarified that in such a case the company may continue to submit the Monthly return on Important Financial Parameters to Reserve Bank of India and to comply with the extant directions as applicable to NBFC-ND-SI, till the submission of their next audited balance sheet to Reserve Bank of India and a specific dispensation is received from the Bank in this regard.

(Details are given in DNBS (PD) CC.No. 141 /03.10.001/2008-09 dated June 4, 2009)

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Appendix

List of circulars

Sl. No.	Circular No.	Date
1.	DNBS (PD) C.C.No.45/ 02.02/ 2004-05	November 13,2004
2.	DNBS(PD) C.C.No.57/02.05.15/ 2004-05	September 6,2005
3.	DNBS (CMDI) C.C.No.67/21.05.15/2005-06	April 5, 2006
4.	DNBS (CMDI) C.C.No.69/21.05.15/2005-06	June 2, 2006
5.	DNBS.PD/ CC. No. 86/03.02.089 /2006-07	December 12,2006
6.	DNBS (PD) CC.No.90/ 03.10.001/2006-07	February 23,2007
7.	DNBS.PD/ CC.No.93/03.05.002 /2006-07	April 27,2007
8.	DNBS(PD)/CC.No.125/03.05.002/2008-09	August 1,2008
9.	DNBS (PD). CC.131/ 03.05.002/2008-09	October 29,2008
10.	DNBS. PD. CC.No./132/22.10.72/2008-09	December 23,2008
11.	DNBS (PD) CC.No.134/03.10.001/2008-09	February 04,2009
12.	DNBS (PD) CC.No.136/03.10.001/2008-09	February 18,2009
13.	DNBS.PD/ CC.No.138/03.02.002/2008-09	April 24,2009
14.	DNBS (PD) CC.No.141/03.10.001/2008-09	June 4,2009
15.	DNBS.PD.CC. No.169 /22.05.02/2009-10	April 22, 2010