

भारतीय रिज़र्व बैंक _RESERVE BANK OF INDIA



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RBI/2024-2025/128 DOR.CAP.REC.No.68/21.01.002/2024-25

March 21, 2025

Dear Sir/Madam,

Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purposes

Please refer to:

- a) Paragraphs 5.1.25 and 107.2 of the <u>Master Direction Reserve Bank of India</u>
 (Non-Banking Financial Company (NBFC) Scale Based Regulation) Directions,
 2023 (definition of Owned Fund and Common Equity Tier 1 (CET 1) capital)
- b) Paragraph 4.1.28 of the <u>Master Direction Non-Banking Financial Company Housing Finance Company (HFC) (Reserve Bank) Directions, 2021 (definition of Owned Fund)</u>
- c) Paragraph 3.(1)(xxii) of the <u>Core Investment Companies (Reserve Bank)</u>

 <u>Directions, 2016</u> (*definition of Owned Fund*)
- d) Paragraph 3(a)(xxv) of the Mortgage Guarantee Companies (Reserve Bank)

 Directions, 2016 (definition of Owned Fund)
- e) Paragraph 3.1(xi) of the <u>Master Direction Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024</u> (definition of Owned Fund)
- f) Paragraph 3(iv) of the <u>Master Direction -Standalone Primary Dealers (Reserve</u>
 Bank) Directions, 2016 (*definition of Tier 1 capital*)

The instructions cited above require deducting the book value of intangible assets while calculating Owned Fund/ CET 1 capital/ Tier 1 capital.

2. In terms of Indian Accounting Standard (Ind AS) 116 - Leases, most leases will be reflected on a lessee's balance sheet as an obligation to make lease payments (a liability) and a related ROU asset (an asset). We have received references from various NBFCs (in their capacity as lessees) on the treatment of ROU assets for calculation of regulatory capital/ Owned Fund.

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3. In this regard, it is clarified that regulated entities shall not be required to deduct an ROU asset (created in terms of Ind AS 116-Leases) from Owned Fund/ CET 1 capital/ Tier 1 capital (as the case may be), provided the underlying asset being taken on lease is a tangible asset. The ROU asset shall be risk-weighted at 100 per cent, consistent with the risk weight applied historically to the owned tangible assets.

4. The above revisions/changes have been incorporated in the respective Master Directions, as <u>detailed</u> in Annexure 1 to Annexure to 6 below.

Applicability

5. This circular is applicable, with immediate effect, to all NBFCs (including HFCs) and Asset Reconstruction Companies implementing Companies (Indian Accounting Standards) Rules, 2015.

Yours faithfully,

(Usha Janakiraman) Chief General Manager-in-Charge

<u>Master Direction - Reserve Bank of India (Non-Banking Financial Company (NBFC) – Scale Based Regulation) Directions, 2023</u>

Extant paragraph	Amended paragraph			
5.1.25 "Owned Fund" means aggregate of	5.1.25 "Owned Fund" means aggregate of			
(i) paid up equity capital,	(i) paid up equity capital,			
(ii) preference shares which are	(ii) preference shares which are			
compulsorily convertible into equity,	compulsorily convertible into equity,			
(iii) free reserves,	(iii) free reserves,			
(iv) balance in share premium account and	(iv) balance in share premium account and			
(v) capital reserves representing surplus	(v) capital reserves representing surplus			
arising out of sale proceeds of asset,	arising out of sale proceeds of asset,			
excluding reserves created by revaluation of	excluding reserves created by revaluation of			
asset;	asset;			
as reduced by	as reduced by			
(vi) accumulated loss balance,	(vi) accumulated loss balance,			
(vii) book value of intangible assets and	(vii) book value of intangible assets and			
(viii) deferred revenue expenditure, if any.	(viii) deferred revenue expenditure, if any.			
	NBFCs shall not be required to deduct a			
	Right-of-Use (ROU) asset (created in terms			
	of Ind AS 116-Leases) from Owned Fund,			
	provided the underlying asset being taken			
	on lease is a tangible asset.			
107.2	107.2			
(ix) The following regulatory	(ix) The following regulatory			
adjustments/deductions shall be applied in	adjustments/deductions shall be applied in			
the calculation of CET 1 capital [i.e., to be	the calculation of CET 1 capital [i.e., to be			
deducted from the sum of items (i) to (viii)]:	deducted from the sum of items (i) to (viii)]:			
(a) Goodwill and other intangible assets:	(a) Goodwill and other intangible assets:			
(i) Goodwill and all other intangible assets	(i) Goodwill and all other intangible assets			
should be deducted from CET 1 capital.	should be deducted from CET 1 capital.			
(ii) The full amount of the intangible assets is	(ii) The full amount of the intangible assets is			
to be deducted net of any associated	to be deducted net of any associated			
deferred tax liabilities which would be	deferred tax liabilities which would be			
extinguished if the intangible assets become	extinguished if the intangible assets become			

Extant paragraph			Amended paragraph					
impaired or derecognized under the relevant			impaired or derecognized under the relevant					
accounting standards. For this purpose, the			accounting standards. For this purpose, the					
definit	ion (of intangible assets	would be in	defin	ition	of intangible assets	would be in	
accord	danc	e with the relevar	nt accounting	accordance with the relevant accounting				
standa	ards.	Losses in the curre	ent period and	standards. Losses in the current period and				
those	brou	ght forward from pre	evious periods	those	those brought forward from previous periods			
should	d also	be deducted from	CET 1 capital,	shou	ld als	o be deducted from	CET 1 capital,	
if not a	alrea	dy deducted.		if not	alrea	dy deducted.		
				NBF	Cs sh	all not be required	to deduct an	
				ROU	ROU asset (created in terms of Ind AS 116-			
				Leases) from CET 1 capital, provided the				
				underlying asset being taken on lease is a				
				tangible asset.				
0.4				84. Treatment to On-Balance Sheet				
	84. Treatment to On-Balance Sheet							
	s ior	Capital Ratio		Assets for Capital Ratio				
Sr.		Weighted risk	Percentage	Sr.		Weighted risk	Percentage	
no		assets - On-	Weight	no		assets - On-	Weight	
		balance Sheet				balance Sheet		
		items				items		
(5)		Other Assets		(5)		Other Assets		
	(d)	Others (to be	100		(d)	Others (including	100	
		specified)				ROU assets)		

<u>Master Direction - Non-Banking Financial Company - Housing Finance Company</u> (Reserve Bank) <u>Directions</u>, 2021

Extant paragraph				Amended paragraph					
4.1.28	4.1.28 "Owned Fund" means paid up equity				4.1.28 "Owned Fund" means paid up equity				
capital, preference shares which are				capital, preference shares which are					
comp	ulsor	ily convertible into	equity, free		comp	ulsor	ily convertible into	equity, free	
reserv	/es	including balance	in share		reserv	es/	including balance	in share	
premi	um	account and capit	al reserves		premi	um	account and capit	tal reserves	
repres	sentir	ng surplus arising	out of sale		repres	sentir	ng surplus arising	out of sale	
proce	eds	of asset, excluding	ng reserves		proce	eds	of asset, excluding	ng reserves	
create	ed by	revaluation of asset	, as reduced	created by revaluation of asset, as reduced			, as reduced		
by acc	cumu	lated loss balance, b	ook value of		by acc	cumu	lated loss balance, b	oook value of	
intang	jible	assets and deferr	ed revenue		intang	jible	assets and deferr	ed revenue	
exper	ditur	e, if any.			exper	ditur	e, if any.		
						HFCs shall not be required to deduct a			
					Right-of-Use (ROU) asset (created in terms				
				of Ind AS			116-Leases) from Owned Fund.		
					provided the underlying asset being taken				
					on lea	se is	a tangible asset.		
On ba	alanc	e sheet assets:		On balance sheet assets:					
6.2					6.2				
Sr.		Weighted risk	%		Sr.		Weighted risk	%	
no		assets - On-	Weight		no		assets - On-	Weight	
		balance Sheet					balance Sheet		
		items					items		
(6)		Other Assets			(6)		Other Assets		
	(d)	Others (to be	100			(d)	Others (including	100	
		specified)					ROU assets)		

Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016

Extant	paragraph	

3.(1)(xxii) "owned funds" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

Amended paragraph

3.(1)(xxii) "owned funds" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

NBFCs shall not be required to deduct a Rightof-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.

8. On balance sheet assets

Percentage weight
100

8. On balance sheet assets

Weighted risk assets - On-Balance Sheet items	Percentage weight
(v) Other assets	
(d) Others (including ROU assets)	100

Master Directions - Mortgage Guarantee Companies (Reserve Bank) Directions, 2016

Extant paragraph		Amended paragraph				
3(a)(xxv) "owned fund" means	s paid up	3(a)(xxv) "owned fund" means paid up equity				
equity capital, free reserves	including	capital, free reserves including contingency				
contingency reserves maintain	ed as per	reserves maintained as per paragraph 18 of the				
paragraph 18 of the Guid	elines on	Guidelines on Registration and Operations of				
Registration and Operations of	Mortgage	Mortgage Guarantee Company, balance in				
Guarantee Company, balance	in share	share premium account and capital reserves				
premium account and capital	l reserves	representing surplus arising out of sale proceeds				
representing surplus arising o	ut of sale	of asset, excluding reserves created by				
proceeds of asset, excluding	reserves	revaluation of asset, as reduced by accumulated				
created by revaluation of asset,	as reduced	loss balance, book value of intangible assets				
by accumulated loss balance, bo	ok value of	and deferred revenue expenditure, if any;				
intangible assets and deferre	d revenue	NBFCs shall not be required to deduct a Right-				
expenditure, if any;	of-Use (ROU) asset (created in terms of Ind AS					
		116-Leases) from Owned Fund, provided the				
		underlying asset being taken on lease is a				
		tangible asset.				
9. Capital Adequacy		9. Capital Adequacy				
On balance sheet assets		On balance sheet assets				
Items of Assets - On- Balance Sheet Items	Risk Weight % Age	Items of Assets - On-Balance Sheet Items Risk Weight % Age				
(vi) Other Assets		(vi) Other Assets				
(d) Others	100	(d) Others (including ROU assets) 100				

<u>Master Direction - Reserve Bank of India (Asset Reconstruction Companies)</u> <u>Directions, 2024</u>

Extant paragraph	Amended paragraph				
3.1 (xi) "Owned fund" means the aggregate	3.1 (xi) "Owned fund" means the aggregate				
of a. paid up equity capital;	of a. paid up equity capital;				
b. paid up preference capital, to the	b. paid up preference capital, to the				
extent it is compulsorily convertible	extent it is compulsorily convertible				
into equity capital;	into equity capital;				
c. free reserves (excluding revaluation	c. free reserves (excluding revaluation				
reserve);	reserve);				
d. credit balance in profit and loss	d. credit balance in profit and loss				
account;	account;				
as reduced by-	as reduced by-				
e. the debit balance on the profit and	e. the debit balance on the profit and				
loss account;	loss account;				
f. miscellaneous expenditure (to the	f. miscellaneous expenditure (to the				
extent not written off or adjusted);	extent not written off or adjusted);				
g. book value of intangible assets;	g. book value of intangible assets;				
h. under/ short provision against NPA/	h. under/ short provision against NPA/				
diminution in value of investments;	diminution in value of investments;				
i. over recognition of income, if any;	i. over recognition of income, if any;				
and	and				
j. other deductions required on account	j. other deductions required on account				
of the items qualified by the auditors	of the items qualified by the auditors				
in their report on the financial	in their report on the financial				
statements.	statements.				
	NBFCs shall not be required to deduct a				
	Right-of-Use (ROU) asset (created in terms of				
	Ind AS 116-Leases) from Owned Fund,				
	provided the underlying asset being taken on				
40.00	lease is a tangible asset.				
18. Capital adequacy ratio: On-balance sheet Risk	18. Capital adequacy ratio: On-balance sheet Risk				
items weight(%)	items weight(%)				
(iv) All other assets 100	All other assets (iv) (including ROU 100				
	asset)				

Master Direction - Standalone Primary Dealers (Reserve Bank) Directions, 2016

Extant paragraph			Amended paragraph				
3(iv) Tie	3(iv) Tier-I capital means paid-up capital,			3(iv) Tier-I capital means paid-up capital,			
statutory	reserves and other	disclosed free	statutory	statutory reserves and other disclosed free			
reserves.	Investment in subsi	diaries (where	reserves.	Investment in subsi	diaries (where		
applicabl	e), intangible asse	ts, losses in	applicable	e), intangible asse	ts <u>*</u> , losses in		
current	accounting period,	deferred tax	current a	current accounting period, deferred tax			
asset ar	nd losses brought	forward from	asset an	nd losses brought	forward from		
previous	accounting perio	ods will be	previous	accounting perio	ods will be		
deducted	from the Tier-I capit	al.	deducted	from the Tier-I capit	tal.		
			NBFCs s	shall not be require	d to deduct a		
			Right-of-l	Jse (ROU) asset (cr	eated in terms		
			of Ind AS 116-Leases) from Owned Fund,				
			provided the underlying asset being taken				
			on lease is a tangible asset.				
		Annex II			Annex II		
Capital A	dequacy for Credit R	Risk	Capital Adequacy for Credit Risk				
Risk weig	Risk weights for calculation of CRAR			hts for calculation o	f CRAR		
1. On-Ba	lance Sheet Assets		1. On-Ba	lance Sheet Assets			
Nature o	of asset/item	Percentage	Nature of asset/item		Percentage		
	weight				weight		
(vi)	(vi) Other assets		(vi)	Other assets			
(d)	Others (to be	X	(d)	Others (ROU	<u>100</u>		
	specified and risk			assets)			
	weight indicated						
	as per counter						
	party)						