भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2015-16/28
DNBR (PD) CC.No.055/03.10.119/2015-16 **July 01, 2015**

To

All Non-Banking Financial Companies (NBFCs),

Dear Sir/Madam,

Master Circulars- Miscellaneous Instructions to NBFC- ND-SI

As you are aware, in order to have all current instructions on the subject at one place, the Reserve Bank of India issues updated circulars / notifications. The instructions related to the captioned subject contained in various circulars issued by RBI updated as on June 30, 2015 are reproduced below. The updated circular has also been placed on the RBI web-site (https://www.rbi.org.in).

Yours faithfully,

(C.D.Srinivasan)
Chief General Manager

गैर बैंकिंग विनियमन विभाग, केंद्रीय कार्यालय, 2री मंज़िल, सेंटर I, वर्ल्ड ट्रेड सेंटर, कफ परेड, मुंबई-400 005
Department of Non-Banking Regulation, Central Office, 2nd Floor, Centre I, WTC, Cuffe Parade, Mumbai – 400 005
Tel No: 22189131 Fax No: 22163768 Email: helpdnbr@rbi.org.in

Table of Contents

Para No	Particulars
1	Financial Regulation of Systemically Important NBFCs and Banks' Relationship with them
	Modifications to the Regulatory Framework
	A. Regulatory Framework for Systemically Important NBFCs – ND (NBFC – ND – SI)
	(i) Determination of NBFC – ND – SI
	(ii) Capital Adequacy Ratio for NBFCs – ND – SI
	(iii) Single / Group Exposure norms for NBFCs – ND – SI
	B. Additional Single Exposure norms for Asset Finance Companies
	C. Expansion of activities of NBFCs through automatic route
	D. Effective date and transition
	E. Scope of application to certain categories
2.	Supervisory Framework for NBFCs-ND-SI
3.	Guidelines for NBFCs-ND-SI as regards capital adequacy, liquidity and disclosure norms
	(i) Capital adequacy
	(ii) Disclosure in the Balance Sheet
4.	Asset Liability Management (ALM) – Reporting
5.	Enhancement of NBFCs' capital raising option for capital adequacy purposes
6.	Ratings of NBFCs
7.	Criteria for deciding NBFC-ND-SI status
8.	Ready Forward Contracts in Corporate Debt Securities
	A. Eligible participants
	B. Capital Adequacy
	C. Classification of balances in the accounts
9.	Participation in Currency Options
	Appendix

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.

[1]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 (NBFCs–ND–SI)

(i) Determination of NBFC – ND – SI

All NBFCs – ND with an asset size of Rs. 500 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 [2]12% as on March 31, 2010 and 15% as on March 31, 2011.

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

Exposure norms were laid down for NBFCs-ND-SI.

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

---

[1] DNBS.PD/CC.No.86/03.02.089/2006-07 December 12, 2006

[2] Amended vide CC 138 dated April 24, 2009 and Notification No 206 dated May 26, 2009

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) [3]Deleted

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[4] 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.

D. 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.

E. 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.

---

[3] Guideline issued vide DNBR (PD) CC.No.002/03.10.001/2014-15 dated November 10, 2014

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

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[5].

2. Supervisory Framework for NBFC-ND-SI

[6] To ensure adherence to compliance with the regulatory framework for NBFCs – ND – SI, 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 shall 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, an 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.

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

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

[7]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 Bank placed on its web-site revised regulatory framework for NBFC vide DNBR (PD) CC. No. 002/03.10.001/2014-15 dated November 10, 2014.

4. Asset Liability Management (ALM) – Reporting

NBFCs-ND-SI 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. [8]The format of the ALM Returns (I, II and III) are available on the Bank's following website (https://cosmos.rbi.org.in).

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, NBFCs-ND-SI are permitted to augment their capital funds by issue of Perpetual Debt Instruments (PDI) in accordance with the guidelines contained in the circular DNBS (PD) CC.No.131/03.05.002/2008-2009 dated October 29, 2008. 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.

6. [9]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. 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

[7] (Notification No. DNBS.200/CGM(PK)-2008 dated August 1, 2008)
[8] DNBS.PD.CC.No.169/22.05.02/2009-10 April 22, 2010
[9] DNBS (PD) CC. No.134/03.10.001/2008-2009 February 4, 2009

rating, to the Regional Office of the Bank under whose jurisdiction their registered office is functioning.

7. [10]Criteria for deciding NBFC-ND-SI status

A non-deposit taking NBFC with an asset size of less than Rs. 500 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. 500 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. 500 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. 500 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.

8. [11]Ready Forward Contracts in Corporate Debt Securities

In terms of 'Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010' dated January 08, 2010 issued by Internal Debt Management Department (IDMD) of RBI, NBFCs registered with RBI (other than Govt companies as defined in Section 617 of the Companies Act, 1956) are eligible to participate in repo transactions in corporate debt securities. IDMD has also issued revised guidelines on uniform accounting for repo / reverse repo transactions on March 23, 2010.

NBFCs participating in such repo transactions shall comply with the Directions and accounting guidelines issued by IDMD. Certain clarifications are being made in this regard as given below.

---

[10] DNBS (PD) CC. No.141/03.10.001/2008-09 June 4, 2009
[11] DNBS.PD/ CC.No.196/03.05.002/2010-11 August 11, 2010

A. Eligible participants

(i) NBFCs-ND with asset size of Rs. 500 crore and above (i.e. NBFCs-ND-SI).

B. Capital Adequacy

(ii) Risk weights for credit risk for assets that are the collateral for such transactions as well as risk weights for the counterparty credit risk shall be as applicable to the issuer / counterparty in the NBFC (non-deposit accepting or holding) Prudential Norms Directions, 2007 ((since repealed by Prudential Norms Directions dated March 27, 2015) as amended from time to time.

C. Classification of balances in the accounts

(iii) Classification of balances in the various accounts viz. repo account, reverse repo account etc. shall be done in the relevant schedules similar to that of banks.

In all other matters related to such repo transactions, NBFCs-ND-SI shall follow the Directions and accounting guidelines issued by IDMD viz. Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010 dated January 08, 2010 and Revised Guidelines on Uniform Accounting for Repo / Reverse repo transactions on March 23, 2010 respectively.

9.[12] Participation in Currency Options

NBFCs may participate in the designated currency options exchanges recognized by SEBI as clients**,** subject to RBI (Foreign Exchange Department) guidelines in the matter, only for the purpose of hedging their underlying forex exposures. Appropriate disclosures may be made regarding transactions undertaken in the Balance sheet.

[12] DNBS (PD) CC No.199/03.10.001/ 2010-11 dated September 16, 2010

Footnote: The Reference to Companies Act, 1956 in the Master Circular will be changed as and when change is effected in the original circulars/notifications.

Appendix

List of Circulars

Sl. No.	Circular No.	Date
1.	DNBS.PD/ CC. No.86/03.02.089/2006-07	December 12, 2006
2.	DNBS.PD/ CC. No.93/03.05.002/2006-07	April 27, 2007
3.	DNBS (PD). CC. No.125/03.05.002/2008-2009	August 1, 2008
4.	DNBS (PD). CC.131/03.05.002/2008-09	October 29, 2008
5.	DNBS (PD) CC. No.134/03.10.001/2008-2009	February 04, 2009
6.	DNBS (PD) CC. No.141/03.10.001/2008-09	June 4, 2009
7.	DNBS.PD.CC. No.169 /22.05.02/2009-10	April 22, 2010
8.	DNBS.PD/ CC. No.196/03.05.002/2010-11	August 11, 2010
9.	DNBS (PD) CC No.199/03.10.001/2010-11	September 16, 2010
10.	DNBR (PD) CC. No.002/03.10.001/2014-15	November 10, 2014