Checklist for NBFC

As per

Non-Banking Financial (Non - Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

Updated upto 31st December, 2012

Para	Particulars	Descriptions	Compliance
1(3)(i)	Applicability	Every NBFC not accepting / holding public deposits "including an infrastructure finance company"	
1(3)(ii)	Paragraphs 16 & 18 will apply only to	Systematically Important not deposite taking NBFC	
1(3)(iii)	Non Applicability	Core investment Company	
1(3)(iv)	Non Applicability	Government NBFC (para 19 shall be applicable)	
2	Definitions		
	Break up value	= (equity capital + reserves) - (intangible assets + revaluation reserves) the number of equity shares	
	Doubtful asset"	➢ a term loan, or ➢ a lease asset, or ➢ a hire purchase asset, or ➢ any other asset, which **remains a sub-standard asset for a period exceeding 18 months**;	
	Earning value	Average of profits after tax - preference dividend xxxxx adjusted for extra-ordinary and non-recurring items, xxxxx xxxxx for immediately preceding three years and divided by the number of equity shares. and capitalised at the following rate in case of: (a) predominantly manufacturing company, @ 8%; (b) predominantly trading company, @ 10% (c) any other company, including NBFC @ 12%	
	Fair value	earning value+ break up value 2	

	Infrastructure Finance Company'	NBFC which deploys at least 75 per cent of its total assets in infrastructure loans"	
	Loss asset	an asset which has been identified as loss asset by ◆ NBFC or ◆ its internal or external auditor or ◆ Reserve Bank of India to the extent it is not written off by NBFC ◆ Asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non availability of security or due to any fraudulent act or omission on the part of the borrower;	
	Non-performing asset	● Asset on which, interest has remained overdue for $\geq$ 6M ● Term loan inclusive of unpaid interest, when the instalment is overdue or on which interest amount remained overdue for $\geq$ 6M ● Demand or call loan, which remained overdue (from the date of demand or call) or on which interest remained overdue for $\geq$ 6M ● Bill which remains overdue for $\geq$ 6M ● Interest of a debt or the income on receivables in the nature of short term loans/advances, which facility remained overdue for $\geq$ 6M ● Dues of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for $\geq$ 6M ● Lease rental and hire purchase instalment, which has overdue for $\geq$ 12M ● In case of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset: Note: In the case of lease and hire purchase transactions, a NBFC may classify each such account on the basis of its record of recovery.	
	Standard asset	Asset in respect of which, no default in repayment of ■ principal or ■ interest is perceived and which does not disclose any problem nor carry more than	

		normal risk attached to the business;	
	Sub-standard asset	■ Asset which has been classified as NPA for ≤ 18M ■ Asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:	
	Substantial interest	holding of a beneficial interest **by an individual or his spouse or minor child**, whether **singly or taken together** in the shares of a company, the amount paid up on which **exceeds 10%** of the paid up capital **of the company**; or the **capital subscribed by all the partners** of a partnership firm;	
	Net lease rentals	Gross lease rentals as adjusted by the lease adjustment account debited/credited to the P&L A/c and as reduced by depreciation at the rate mentioned in the CA, 1956	
3	**Income recognition**	➢ Shall be based on recognised accounting principles. ➢ **Income including interest/discount or any other charges on NPA** shall be recognised only **when it is actually realised**. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed. ➢ In case of hire purchase assets, where instalments are overdue for > 12M income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised, shall be reversed. ➢ In case of lease assets, where lease rentals are overdue for >12M, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.	
4	**Income from investments**	● Income from dividend on shares and units of mutual funds shall be taken on cash basis: Income from dividend on shares may be taken on accrual basis when such dividend has been declared in AGM and the NBFCs right to receive payment is established. ● Income from bonds and debentures of corporate bodies and from Government securities/bonds may be taken on accrual basis:	

		Interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears. ● Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government may be taken into account on accrual basis.	
5	**Accounting standards**	Accounting Standards and Guidance Notes issued by ICAI” shall be followed insofar as they are not inconsistent with any of these Directions.	
6	**Accounting of investments**	The Board of Directors of NBFC shall frame investment policy for the company and implement the same; ● The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy; ● Investments in securities shall be classified into current and long term, at the time of making each investment; ● There shall be no inter-class transfer on ad-hoc basis; ● The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board; ● The investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower; ● The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored; ● The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category. ● Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz., (a) equity shares, (b) preference shares, (c) debentures and bonds, (d) Government securities including treasury bills, (e) units of mutual fund, and (f) others.	

		Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. ➢ If the aggregate market value < aggregate cost for that category, Net depreciation shall be provided for or charged to the profit and loss account. ➢ If the aggregate market value for the category > aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category. ● Unquoted equity shares in the nature of current investments shall be valued at cost or break up value, whichever is lower. However, NBFC may substitute fair value for the break up value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only. ● Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower. ● Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost. ● Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the NAV declared by the mutual fund in respect of each particular scheme. ● Commercial papers shall be valued at carrying cost. ● Long term investment shall be valued in accordance with the AS issued by ICAI. **Note:** Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.	
7	**Policy on Demand/Call Loans**	The Board of Directors of NBFC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.	All NBFC
8	**Asset Classification**	NBFC shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following.	All NBFC

		■ Standard assets; ■ Sub-standard assets; ■ Doubtful assets ■ Loss assets. The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.	
9	**Provisioning requirements**	NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided in Annexture-1	All NBFC
10	**Disclosure in the balance sheet**	✔ NBFC shall separately disclose in its balance sheet the provisions made as per paragraph 9 above without netting them from the income or against the value of assets. ✔ The provisions shall be distinctly indicated under separate heads of account as: ➢ provisions for bad and doubtful debts; ➢ provisions for depreciation in investments. ✔ Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the NBFC ✔ Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them. ✔ Every ND-SI-NBFC shall disclose the following particulars in its Balance Sheet ➢ Capital to Risk Assets Ratio (CRAR) ➢ Exposure to real estate sector, both direct and indirect; ➢ Maturity pattern of assets and liabilities	All NBFC
11	**Constitution of Audit Committee**	■ NBFC having **assets of Rs. 50 crore and above** as per its last audited balance sheet shall constitute an Audit Committee, consisting of not less than three members of its Board of Directors. ■ If already appointed U/S 292A of the Companies Act, 1956 (1 of 1956)than it shall be the Audit Committee for the purposes of this paragraph.	
12	**Accounting year**	■ NBFC shall prepare its BS and P&L A/cas on March 31 every year. ■ Whenever NBFC intends to extend the date of its balance sheet , it should take prior	

		approval of RBI before approaching the ROC. ■ Further, where the RBI and the ROC grant extension of time, the NBFC shall furnish to the Bank a proforma balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the said date. ■ **NBFC shall finalise its balance sheet within 3 months from the date to which it pertains"**.	
13	**Schedule to the balance sheet**	NBFC shall append to its balance sheet, the particulars in the schedule as set out in Annex.	
14	**Transactions in Government securities**	■ NBFC may undertake transactions in Government securities through its CSGL account or its demat account: ■ NBFC shall not make any transaction in government security in physical form through any broker.	
15	**Submission of a certificate from Statutory Auditor to the Bank**	NBFC shall submit a Certificate from its Statutory Auditor that it is engaged in the business of NBFI requiring it to hold a Certificate of Registration under Section 45-IA . ■ with reference to the position of the company as at ended March 31 ■ within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year."] ■ Certificate shall also indicate the asset / income pattern of NBFC for making it eligible for classification as AFC, IC, LC. For an NBFC-MFI, such Certificate will also indicate that the company fulfils all conditions stipulated to be classified as an NBFC-MFI.	All NBFC
16	**Requirement as to capital adequacy (CRAR)**	■ ND-SI-NBFC shall maintain CRAR of 15% . ■ Tier II capital, at any point of time, shall not exceed 100% of Tier I capital.	
17	**Loans against non-banking financial company's own shares prohibited**	■ NBFC shall not lend against its own shares. ■ Any outstanding loan granted by NBFC against its own shares on the date of commencement of these Directions shall be recovered by the NBFC as per the repayment schedule.	
17A	**Loans against security of single product - gold**	➢ All NBFCs shall ■ maintain a Loan-to-Value(LTV) ratio not exceeding 60 % for loans granted against	

	jewellery	the collateral of gold jewellery and ■ Disclose in their balance sheet the % of such loans to their total assets. ➢ NBFCs should not grant any advance against bullion / primary gold and gold coins. ➢ NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 % or more of their financial assets) shall maintain a minimum Tier l capital of 12 % from April 01, 2014.	
18	**Concentration of credit/investment**	ND-SI-NBFC shall not, ➢ **LEND TO** ◆ any single borrower exceeding 15 % of its owned fund; and ◆ any single group of borrowers exceeding 20 % of its owned fund; ➢ **INVEST IN** ◆ the shares of another company exceeding 15 % of its owned fund; and ◆ the shares of a single group of companies exceeding 20 % of its owned fund; ➢ **LEND AND INVEST (loans/investments taken together) exceeding** ◆ 25 % of its owned fund to a single party; and ◆ 40 5 of its owned fund to a single group of parties. **Notes:** ● Ceiling on the investment in shares of another company shall not be applicable to a ND-SI-NBFC in respect of investment in the equity capital of an insurance company upto the extent specifically permitted, in writing, by the Reserve Bank of India. ● ND-SI-NBFC, classified as AFC, may in exceptional circumstances, exceed the above ceilings on credit / investment concentration to a single party or a single group of parties by 5 per cent of its owned fund, with the approval of its Board. ● any ND-SI-NBFC not accessing public funds, either directly or indirectly, or not issuing guarantees may make an application to the Bank for an appropriate dispensation consistent with the spirit of the exposure limits". ● Every ND-SI-NBFC shall formulate a policy in respect of exposures to a single party / a single group of parties.	

		Notes : • For determining the limits, off-balance sheet exposures shall be converted into credit risk by applying the conversion factors. • The investments in debentures for the purposes specified in this paragraph shall be treated as credit and not investment. • **These ceilings shall be applicable to the credit/investment by such a NBFC to companies/firms in its own group as well as to the borrowers/ investee company's group.**	
19	**Information of change of address, directors, auditors, etc. to be submitted**	NBFC not accepting/holding public deposit shall communicate to RBI, within one month from the occurrence of any change in: ■ Complete postal address, telephone number/s and fax number/s of the registered/corporate office; ■ Names and residential addresses of the directors of the company; ■ Names and the official designations of its principal officers; ■ Names and office address of the auditors of the company; and ■ Specimen signatures of the officers authorised to sign on behalf of the company	All NBFC
19A	**Requirements for Infrastructure Finance Company**	■ not accept deposits from the public; ■ have net owned funds of Rs. 300 crore or above; ■ have obtained a minimum credit rating 'A' or equivalent of CRISIL, FITCH etc. ■ have a CRAR of 15 percent (with a minimum Tier I capital of 10 percent)].	
20	**Norms relating to Infrastructure loan**	These norms shall be applicable to restructuring and/or rescheduling and/or renegotiation of the terms of agreement relating to infrastructure loan, which is fully or partly secured standard and sub-standard asset and to the loan, which is subjected to restructuring and/or rescheduling and/or renegotiation of terms.	
20A	**NBFCs not to be partners in partnership firms**	■ NBFC shall not contribute to the capital of a partnership firm or become a partner of such firm.	

		■ NBFC, which had already contributed to the capital of a partnership firm or was a partner of a partnership firm shall seek early retirement from the partnership firm.31	
21	**Exemptions**	RBI may, exempt any NBFC or its class from all or any of the provisions of these Directions either generally or for any specified period, subject to such conditions .	

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