Summary of Reserve Bank of India's New Guidelines for NBFCs

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Below is the summary of the new guidelines along with its probable implications on the economy or the NBFC or RBI or the borrowers, as the case may be. The same are my personal opinions as per my experience with this sector for last five years.

Broad Heading	**Changes**	**Implications**
Intentions of RBI	Transitioning to an activity based regulation of NBFCs	We may expect moves from regulator for sector specific or activity specific amendments.
Net Owned Funds Requirements	Requirements of Rs. 200 lakh NOF (Net owned funds) for all NBFCs Milestones to be achieved as - Rs. 100 lakh by the end of March 2016 Rs. 200 lakh by the end of March 2017 • To submit statutory auditor's certificate for achieving the above milestones • NBFCs failing to achieve the prescribed ceiling shall not be eligible to hold CoR as NBFC. RBI will initiate process for cancellation of CoR against such NBFCs	All NBFCs need to maintain NOF of Rs. 200 lakh and may need fresh capital infusion for smaller NBFCs in existence.
Deposit Acceptance by Unrated Asset Finance Companies	Asset Finance companies accepting public deposits but their deposits are not rated by Credit Rating Agency need to get it rated by 31st March, 2015. Failing which they will not be permitted to renew existing deposits after 31-03-2016. In the intervening period they will not be allowed to accept new	Increased rush for getting credit rating by Asset Finance Companies. Intermediate problems since they are not allowed to accept fresh deposits. They can just renew the deposits by 31-03-2016.

	deposits. (para 5.2)	
Deposit Acceptance by rated Asset Finance Companies	The extent of public deposits accepted by AFCs (Rated) are reduced from 4 times of NOF to 1.5 times of NOF. We.f. 10th November, 2014. • AFCs holding more deposits than above limit shall not accept fresh deposits or renew existing deposits	RBI stated that "this harmonization measure will not be disruptive" because the existing position of AFCs are mostly within the new limits. And for cases where limits have crossed, they are not substantial.
Revision of Systemically Important NBFCs	The threshold for defining systemic significance for NBFCs-ND has been revised to Rs. 500 crore and above as per the last audited balance sheet. (Para 6.2 and 6.3)	Majority of Existing NBFCs with asset size between Rs. 100 crore to Rs. 500 crore will get major relaxation in existing compliances and regulatory glitches. A big relax I feel for many such NBFCs. However, the relaxation will be subject to the new guidelines.
Multiple NBFCs in a group	NBFCs that are **part of a corporate group** or are floated by a **common set of promoters** will not be viewed on a standalone basis. The total assets of NBFCs in a group will be aggregated to determine if such total assets are Rs. 500 crore or more in order to be classified as Systemically Important NBFC category.	Floating more than 1 NBFC in a group for the purpose of going out of the purview of Compliances of Systemically Important NBFCs won't work. Statutory auditor would be required to certify the asset size of all the NBFCs in the group.
Group Companies	The definition of the word "group" will be the same as per Accounting Standards. "Companies in the Group", shall mean an arrangement involving two or more entities related to each other through any of the following relationships:	RBI finally made it all clear scope for Companies in the Group. Hitherto, it was only mentioned in regulations pertaining to Core Investment Companies.

	Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter - Promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997, For listed companies, a related party (defined in terms of AS 18), common brand name, and investment in equity shares of 20% and above.	
Prudential Norms for NBFCs of assets lesser than Rs. 500 crore	NBFCs not accessing public funds (wider definition than public deposits) are given relaxation for various prudential norms. -not be subjected to regulation viz., Fair Practices Code (FPC), KYC, etc., if they have not accessed any public funds and do not have a customer interface (para 8.2 (i) - Those accepting public funds will be subjected to limited prudential regulations but not conduct of business regulations if they have no customer interface - Where both public funds are accepted and customer interface exist, NBFCs will be subjected to limited prudential regulations and conduct of business regulations - Registration is still mandatory for all kinds of NBFCs (even though not accessing any public funds) - The simplified reporting system will be communicated separately	Big relief in compliances and saving of compliance costs for those NBFCs where they are not accessing public funds and/or not having any customer interface. Public Funds definition will become more important for NBFC sector. 'public funds' includes "funds **raised directly or indirectly** through public deposits, commercial papers, **debentures, inter-corporate deposits** and **bank finance,** but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue"
Prudential Norms for	• Exempted from requirement of	Relaxation in compliances

NBFCs-ND with asset size Less than Rs. 500 crore	maintaining CRAR and complying with credit concentration norms • Leverage ratio cap of 7, where leverage ratio is Total Outside Liabilities/Owned Funds (para 8.5)	subject to maintenance of leverage ratio of 7.

Tier 1 capital	• Maintain minimum tier I capital of 10% by 31-03-2017 Milestones as follows
	  ○ 8.5% by 31-03-2016
	  ○ 10% by 31-03-2017
	(para 8.7)
		Increased need for capital infusion or permanent

NPA Norms for Lease rentals and Hire-Purchase assets	Para 8.9, 8.10 For lease rentals and Hire-Purchase assets, they shall become NPA– • if they become overdue for 9 months for the financial year ending March 31, 2016; • if overdue for 6 months for the financial year ending March 31, 2017; and • if overdue for 3 months for the financial year ending March 31, 2018 and thereafter	Harmonisation with norms applicable for banks.
Sub-standard asset Para 8.11	• an asset that has been classified as NPA for a period not exceeding 16 months (currently 18 months) for the financial year ending March 31, 2016; • NPA for a period not exceeding 14 months for the FY ending March 31, 2017; and • NPA for a period not exceeding 12 months for the F Y ending March 31, 2018 and thereafter.	Harmonisation with norms applicable for banks.
Doubtful Asset Para 8.12	• an asset that has remained sub-standard for a period exceeding 16	Harmonisation with norms applicable for banks.

	months (currently 18 months) for the F Y ending March 31, 2016; • an asset - sub-standard for a period exceeding 14 months for the financial year ending March 31, 2017; and • an asset - sub-standard for a period exceeding 12 months for the financial year ending March 31, 2018 and thereafter.	
One time adjustment of repayment schedule will be permitted	• (Para 8.13) For the existing loans, a one-time adjustment of the repayment schedule, which shall not amount to restructuring will, however, be permitted.	May not actually help the business but can be used as a measure to strengthen the balance sheet in case of immediate implications arising on the balance sheet.
Provisions for standard assets	Provisioning for Standard Assets • (Para 8.14) The provision for standard assets for NBFCs-ND-SI and for all NBFCs-D, is being increased to 0.40% The compliance to the revised norm will be phased in as given below • 0.30% by the end of March 2016 • 0.35% by the end of March 2017 • 0.40% by the end of March 2018	NBFCs having assets below Rs. 500 Crores will continue to make 0.25% of provisions against standard assets
Credit / Investment Concentration Norms for AFCs	Para 8.15 The credit concentration norms for AFCs are now being brought in line with other NBFCs. Applicable with immediate effect for all new loans.	All existing excess exposures would be allowed to run off till maturity
Corporate Governance and Disclosure norms for	Board Committees (Para 9.3) To NBFC-ND-SI and NBFC-D (Asset Size Rs.	Rotation of Auditor is every three years for NBFC-ND-SI and NBFC-D.

NBFCs - Audit Committee - Nomination Committee - Risk management Committee	500 crore and Above) Mandatory Formation of Audit Committee, Nomination committee (to ensure 'fit and proper' status of proposed/ existing Directors) and Risk Management Committee and Required to stipulate Rotation of Partner of Audit firm appointed for auditing the company every three years.	Other NBFCs are encouraged to observe such practices, if already being followed.
Information System Audit	(Para 9.4) The Audit Committee of all NBFCs-ND-SI, as also all NBFCs-D **MUST ENSURE** that an **Information Systems Audit** of the **internal systems and processes** is conducted **at least once in two years** to **assess operational risks faced** by the company.	Extra burden on the NBFCs and an Opportunity for professionals.
Fit and Proper Criteria for Directors	(Para 9.5) The following additional requirements shall be applicable to all NBFCs-ND-SI, and NBFCs-D, with effect from **March 31, 2015** - Put in place policy for ascertaining the fit and proper criteria of Directors (for appointment as well as for continuous basis) – Guidelines are given in the circular - Declaration and undertaking shall be obtained from the Directors - The Directors shall sign a Deed of Covenant as given in format	Additional Compliance Requirement Furnish to RBI a quarterly statement on change of Directors certified by the auditors and a certificate from the Managing Director that fit and proper criteria in selection of directors have been followed. The statement must reach the Regional Office concerned of the Reserve Bank within 15 days of the close of the quarter.
Disclosures in Financial Statements – Notes to Account	(Para 9.6) - Now only applicable to NBFCs-ND-SI (as redefined) and NBFCs-D viz. Disclosure of CRAR, Real Estate Exposure (direct and Indirect) and	

	maturity pattern of assets and liabilities - other NBFCs already disclosing the above are encouraged to continue to do so, in line with prudent practice	
Additional Disclosures for NBFCs-ND-SI (as redefined), as also all NBFCs-D	(Para 9.7) Additional Disclosures in Financial Statements Registration/ licence/ authorisation obtained from other financial sector regulators; Ratings assigned by credit rating agencies and migration of ratings during the year; Penalties, if any, levied by any regulator; Information viz., area, country of operation and joint venture partners with regard to Joint Ventures and Overseas Subsidiaries; and Asset liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures as given in Annex 4 (provided in circular PDF file).	Additional disclosure norms as per changing economy and systemic importance of the data for analysts and investors at large.
Simplified returns for NBFC-ND with asset size Below Rs. 500 crore	(Para 10) To submit only a simplified Annual Return (will be communicated by RBI separately)	NBFC-D and NBFC-NDs to continue filing existing returns till new announcement.
Exemptions	Circular dated March 21, 2014 on "Early Recognition of Financial Distress……" shall be applicable to a) NBFCs with assets of Rs. 100 crore and above, b) NBFCs-D, and c) all	

	NBFC-Factors (d) to NBFC-MFI (to the extent the same is not in conflict with NBFC –MFI Directions, 2011 (e) Also applicable for Core Investment Companies to the extent the same is not in conflict with CIC (Reserve bank) Directions, 2011	
Tier I for Gold Financing Companies	Minimum Tier I capital requirement for NBFCs primarily engaged in financing against Gold jewellery remains unchanged	