

RBI/2008-09/116

DNBS (PD). CC. No. 125/03.05.002 / 2008-2009

August 1, 2008

All non-deposit taking NBFCs with asset size of Rs 100 crore and above
(All NBFC-ND-SI)

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

Please refer to paragraph 216 of Annual Statement on Monetary Policy for the Year 2008-09 in terms of which capital adequacy, liquidity and disclosure norms were to be reviewed in respect of systemically important non-deposit taking NBFCs(NBFCs-ND-SI).

2. To protect the interests of the depositors, deposit taking NBFCs (NBFC-D) were subject to prudential regulation on various aspects of their functioning. However, non-deposit taking NBFCs (NBFCs-ND) were subject to minimal regulation. In the light of the evolution and integration of the financial sector, it was felt that all systemically relevant entities offering financial services ought to be brought under a suitable regulatory framework to contain systemic risk. Therefore, as a first step, it was advised vide DNBS.PD/ CC. No. 86/ 03.02.089 /2006-07 dated December 12, 2006 that all NBFCs – ND with an asset size of Rs. 100 crore and more as per the last audited balance sheet would be considered as systemically important NBFC – ND (NBFC-ND-SI) and specific regulatory framework involving prescription of capital adequacy and exposure norms was put in place from April 01, 2007 for such NBFCs-ND-SI.

3. On a review of the experience with the regulatory framework since April 2007, it is 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 had 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. After considering the comments received from public/NBFCs/Associations/banks, the guidelines have been modified suitably.

Capital adequacy

4. NBFCs – ND – SI were advised to maintain a minimum Capital to Risk- Assets Ratio (CRAR) of 10% with effect from April 01, 2007. However, in view of recent international developments, the risks associated with highly leveraged borrowings and reliance on short term funds by some NBFCs to fund long gestation assets, concerns have arisen regarding the enhanced systemic risk associated with the activities of these entities. Keeping in view the importance of providing adequate capital charge for the same in order to enhance the cushion for any shocks, it has been decided to increase the minimum capital to risk assets ratio (CRAR) for NBFCs-ND-SI from the present prescription of 10%. They are advised to achieve 12% CRAR by March 31, 2009 and further 15% CRAR by March 31, 2010.

Disclosure in the Balance Sheet

5. In the light of the concerns as expressed above, 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:

- i. Capital to Risk Assets Ratio (CRAR)
- ii. Exposure to real estate sector, both direct and indirect; and
- iii. Maturity pattern of assets and liabilities

The format of disclosure of this additional information is furnished in Annex-I.

Asset Liability Management (ALM) – Reporting

6. To address concerns regarding Asset Liability mismatches and interest rate risk exposures, an ALM System was introduced for the Non-Banking Financial Companies (NBFCs) as part of their overall system for effective risk management in their various portfolios vide Company Circular DNBS (PD).CC.No.15 /02.01 / 2000-2001 dated June 27, 2001. While it was stated therein that the guidelines would be applicable to all NBFCs irrespective of whether they are accepting / holding public deposits or not, to begin with, NBFCs meeting the criteria of asset base of Rs.100 crore (whether accepting / holding public deposits or not) or holding public deposits of Rs. 20 crore or more (irrespective of their asset size) as per their audited balance sheet as of March 31, 2001 were required to put in place the ALM System. The companies were advised that the guidelines should be fully operationalised by the year ending March 31, 2002. A system of half yearly reporting was also put in place for NBFCs holding public deposits.

7. In view of the possibilities of leveraged investments, and asset liability mismatches resulting from use of short term sources to fund NBFC activities, it has now been decided to introduce a system of reporting for NBFCs-ND-SI in the format as prescribed in the Annex. The return will comprise of:

- (i) Statement of short term dynamic liquidity in format ALM - Annexure – II [NBS-ALM1],
- (ii) Statement of structural liquidity in format ALM - Annex – III [NBS-ALM2] and
- (iii) Statement of Interest Rate Sensitivity in format ALM - Annexure – IV [NBS-ALM3].

8. To enable the above class of NBFCs to fine tune their existing MIS to meet the requirement of the reporting dispensation, such compilation would commence with effect from the period ending September 30, 2008. 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. It shall be submitted within 10 days of the close of the month to which it relates and half yearly statement within 20 days of the close of the half year to which it relates to the Regional Office of the Department in whose jurisdiction the NBFC is registered. However, to enable the NBFCs to fine tune the system, the first return for the period ended September 2008 would be submitted by the 1st week of January 2009.

The compilation frequency of Statement of Interest Rate Sensitivity [NBS-ALM3] would be half yearly. As a first step, the same shall be put up to the Board of Directors of the NBFC at half yearly intervals. The statement shall be filed with the Bank later from the date to be announced.

9. A copy of Notification No. DNBS. 200 / CGM(PK)-2008 dated August 1, 2008 amending Notification No. DNBS. 193 DG(VL)-2007 dated February 22 , 2007 with respect to disclosure in balance sheet and requirement as to capital adequacy is enclosed.

Yours faithfully

(P Krishnamurthy)
Chief General Manager In-Charge

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE I, WORLD TRADE CENTRE,
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Notification No. DNBS. 200 / CGM(PK)-2008 dated August 1, 2008

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 contained in Notification No. DNBS. 193/DG(VL)-2007 dated February 22, 2007 in exercise of the powers conferred by sections 45J, 45JA, 45K and 45L of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said directions shall be amended with immediate effect as follows, namely -

1. In paragraph 10, after clause (4) following clause shall be inserted:

"(5) Every systemically important non-deposit taking non-banking financial company shall disclose the following particulars in its Balance Sheet

- (i) Capital to Risk Assets Ratio (CRAR)
- (ii) Exposure to real estate sector, both direct and indirect; and
- (iii) Maturity pattern of assets and liabilities."

2. In paragraph 16(1), the following sentence shall be added at the end of the paragraph:

"such ratio shall not be less than 12% by March 31, 2009 and 15% by March 31, 2010."

(P. Krishnamurthy)
Chief General Manager In-Charge

CRAR

Items		Current Year	Previous Year
i)	CRAR (%)		
ii)	CRAR - Tier I capital (%)		
iii)	CRAR - Tier II Capital (%)		

Exposures**Exposure to Real Estate Sector**

Category		Current year	Previous Year
a)	Direct exposure		
	(i) Residential Mortgages -		
	Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Individual housing loans up to Rs.15 lakh may be shown separately)		
	(ii) Commercial Real Estate -		
	Lending secured by mortgages on commercial real estates (office buildings, retail space, multipurpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits:		
	(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures -		
	a. Residential,		
	b. Commercial Real Estate.		
b)	Indirect Exposure		
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).		

Asset Liability Management

Maturity pattern of certain items of assets and liabilities

(Rs. in crore)									
	1 day to 30/31 days (one month)	Over one month to 2 months	Over 2 months upto 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks									
Market Borrowings									
Assets									
Advances									
Investments									

Withdrawn

Name of the NBFC
Statement of short-term Dynamic Liquidity as on

	1 to 14 days	Over 14 days to one month	Over one month to 2 month s	Over 2 months to 3 months	Over 3 Months upto 6 months
A. Outflows					
1. Increase in loans & Advances					
2. Net increase in investments					
i) Govt./approved securities					
ii) Bonds/debentures/shares					
iii) Others					
3. Net decrease in ICDs					
4. Net decrease in borrowings from various sources/net increase in market lending					
5. Outflow on account of off-balance sheet items					
6. Other outflows					
TOTAL OUTFLOWS (A)					
B Inflows					
1. Net cash position					
2. Net increase in ICDs					
3. Interest inflow on investments					
4. Interest inflow on performing Advances					
5. Net increase in borrowings from various sources					
6. Inflow on account of off-balance sheet items					
7. Other inflows					
TOTAL INFLOWS (B)					
C. Mismatch (B - A)					
D. Cumulative mismatch					
E. C as percentage to Total Outflows					

Name of the NBFC:

Statement of structural liquidity as on

	Residual Maturity									
A. Outflows ¹	1 to 14 days	Over 14 days to one month	Over one month to 2 months	Over 2 months to 3 months	Over 3 Months upto 6 months	Over 6 Months upto 1 year	Over 1 year upto 3 years	Over 3 years upto 5 years	Over 5 years	Total
1. Capital	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Equity and perpetual preference shares										
b) Non-perpetual preference shares										
2. Reserves & surplus										
3. Grants, donations & benefactions										
4. Bonds & debentures / (unsecured portion to be indicated separately)/ Others (Please specify)	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Plain vanilla bonds/debentures										
b) Bonds/debentures with embedded options										
c) Others (Please specify)										
5. ICDs										
6. Borrowings										
a) Short Term borrowings										
i. CP - banks										
ii. CP - Other										
iii. Others										
b) Long Term borrowings										
i. banks										
ii. FIs										
iii. Others										
7. Current Liabilities & provisions										

¹ Please see instructions as regards time buckets in Appendix 1.

a) Sundry creditors										
b) Expenses payable (Other than interest)										
c) Advance income recd. (receipts from borrowers pending adjustments)										
d) Interest payable on bonds/ deposits										
e) Provisions (other than for NPAs)										
8. Contingent Liabilities ²	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Letters of credit/guarantees										
b) Loan commitments pending disbursal (outflows)										
c) Lines of credit committed to other institutions (outflows)										
d) Outflows on account of forward exchange contracts, rupee/dollar swap & bills rediscounted										
9. Others (specify)										
A. TOTAL OUTFLOWS (A)										
B. Cumulative Outflows										
C. Inflows										
1. Cash										
2. Remittance in transit										
3. Balances with banks	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Current account										
b) Deposit /short-term deposits										
4. Investments (net of provisions)										

² See part c of Appendix-1. This may be classified as per appendix.

5. Advances (performing)										
a) Bills of exchange and promissory notes discounted & rediscounted										
b) Term loans (only rupee loans)										
c) Corporate loans/short term loans										
6. Non-performing loans (net of provisions and ECGC claims received) (under various categories enumerated in Appendix I)										
7. Inflows from assets on lease										
8. Fixed assets (excluding assets on lease)										
9. Other assets : i. Intangible assets & other non-cash flow items ii. Interest and other income receivable iii. Others										
10. Lines of credit committed by other institutions (inflows)										
11. Bills rediscounted (inflow)										
12. Inflows on account of forward exchange contracts, dollar/rupee swaps (sell/buy)										
13. Others										
C. TOTAL INFLOWS (C)										
D. Mismatch (C - A)										
E. Mismatch as % to outflows (D as %										

to A)										
F. Cumulative Mismatch										
G. Cumulative Mismatch as % to Cumulative Outflows (F as % to B)										

Withdrawn

Annexure IV

NBS-ALM 3

Name of the NBFC :

Statement of Interest Rate Sensitivity as on :

(Amt. in crore of rupees)

A. Outflows	1 day to 14 days	Over 14 days to one month	Over one month to 2 months	Over 2 months upto 3 months	Over 3 months upto 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
1. Capital	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Equity and perpetual preference shares										
b) Non-perpetual preference shares										
2. Reserves & surplus										
3. Grants, donations & benefactions										
4. Bonds & debentures (unsecured portion to be indicated separately)	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Plain vanilla bonds/debentures										
b) Bonds/debentures with embedded options										
c) Others (Please specify)										
5. ICDs										
6. Borrowings										
a) Short Term borrowings										
i. CP - banks										
ii. CP - Other										
iii. Others										
b) Long Term borrowings										
i. banks										
ii. FIs										
iii. Others										
7. Current Liabilities & provisions										

a) Sundry creditors										
b) Expenses payable										
c) Advance income recd.										
d) Interest payable on bonds/ICDs										
e) Provisions (other than for NPAs)										
8. Contingent Liabilities	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Letters of credit/guarantees										
b) Loan commitments pending disbursement (outflows)										
c) Lines of credit committed to other institutions (outflows)										
d) Outflows on account of forward exchange contracts, rupee/dollar swap & bills rediscounted										
9. Others (specify)										
A. TOTAL OUTFLOWS (A)										
B. Cumulative Outflows										
C. Inflows										
1. Cash										
2. Remittance in transit										
3. Balances with banks	xx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
a) Current account										
b) Deposit /short-term deposits										
c) Money at call & short notice										
4. Investments (net of provisions)										
5. Advances (performing)										

a) Bills of exchange and promissory notes discounted & rediscounted										
b) Term loans (only rupee loans)										
c) Corporate loans/short term loans										
6. Non-performing loans (net of provisions and ECGC claims received) (under various categories enumerated in Appendix I)										
7. Inflows from assets on lease										
8. Fixed assets (excluding assets on lease)										
9. Other assets : i. Intangible assets & other non-cash flow items ii. Interest and other income receivable iii. Others										
10. Lines of credit committed by other institutions (inflows)										
11. Bills rediscounted (inflow)										
12. Inflows on account of forward exchange contracts, dollar/rupee swaps (sell/buy)										
13. Others										
C. TOTAL INFLOWS (C)										
D. Mismatch (C - A)										
E. Mismatch as % to outflows (D as % to A)										
F. Cumulative										

Mismatch										
G. Cumulative Mismatch as % to Cumulative Outflows (F as % to B)										

Withdrawn