RBI/2008-09/ 107
DNBS (PD) C.C. No. 124/ 03.05.002/ 2008-09

July 31, 2008

All Non-Banking Financial Companies (NBFCs),
including Residuary Non-Banking Companies (RNBCs)

Dear Sirs,

Accounting for taxes on income- Accounting Standard 22- Treatment of deferred tax assets (DTA) and deferred tax liabilities (DTL) for computation of capital

In terms of Accounting Standard 22 issued by the Institute of Chartered Accountant of India (ICAI), on 'Accounting for Taxes on Income', taxable income is calculated in accordance with tax laws and the requirements of these laws to compute taxable income differ from the accounting policies applied to determine accounting income. The tax effects of timing differences are included in the tax expense in the statement of profit and loss and as deferred tax assets (DTA) (subject to the consideration of prudence) or as deferred tax liabilities (DTL) in the balance sheet.

2. As creation of DTA or DTL would give rise to certain issues impacting the balance sheet of the company, it is clarified that the regulatory treatment to be given to these issues are as under :-

- The balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose as it is not an eligible item of capital.

- DTA will be treated as an intangible asset and should be deducted from Tier I Capital.

- NBFCs may keep the above clarifications in mind for all regulatory requirements including computation of CRAR and ensure compliance with effect from the accounting year ending March 31, 2009. NBFCs which are unable to comply with the regulatory CRAR requirement due to giving effect to the norms as above will be given an appropriate transition period to comply with the same. Such companies may approach the Regional Office of the Bank in the jurisdiction of which their Registered Office is located for suitable dispensation in accordance with the spirit of these norms <u>within a period of thirty days</u> of the issue of the instructions in this regard.

Yours faithfully,

((P Krishnamurthy)
Chief General Manager In-Charge