RESERVE BANK OF INDIA
DEPARTMENT OF REGULATION
CENTRAL OFFICE, 2nd FLOOR, MAIN OFFICE BUILDING
SHAHID BHAGAT SINGH MARG, FORT, MUMBAI – 400 001

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Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

The Reserve Bank of India (the Bank), having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Non-Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND)from being conducted in a manner detrimental to the interest of investors or in any manner prejudicial to the interest of such NBFCs, and in exercise of the powers conferred under sections 45JA, 45L and 45M of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and section 3 read with section 31A and section 6 of the Factoring Regulation Act, 2011 (Act 12 of 2012), hereby issues to every NBFC-ND, in supersession of the Notification No.DNBS.193/ DG(VL)-2007 dated February 22, 2007, Notification DNBS. PD. CC. No. 168 / 03.02.089 / 2009-10 dated February 12, 2010, Notification DNBS.PD.No.234 / CGM(US)2011 dated December 02, 2011, Notification DNBS.PD.No.247/CGM(US)-2012 dated July 23, 2012 and Notification No.DNBR.008/CGM(CDS)-2015 dated March 27, 2015 the **Non-Banking Financial Company–Non-Systemically Important Non-Deposit taking (Reserve Bank) Directions, 2016** (the Directions) hereinafter specified.

(J P Sharma)
Chief General Manager

*** Since this Master Direction has been significantly amended, it has been replaced rather than showing the changes in track mode for reader convenience.**

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Section I: Introduction

Chapter – I
Preliminary

1. Short Title and Commencement of the Directions.

(1) These Directions shall be called the **Non-Banking Financial Company–Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016**

(2) These Directions shall come into force with immediate effect.

2. Applicability

(1) The provisions of the Directions shall apply to the following:

(i) every Non-Banking Financial Company (NBFC) not accepting/ holding public deposits which is not systemically important (as defined in paragraph 3(xxix) of the Directions);

(ii) every Non-Banking Financial Company – Factor (NBFC-Factor) registered with the Bank under section 3 of the Factoring Regulation Act, 2011 and having an asset size of below ₹500 crore;

(iii) every Non-Banking Financial Company– Micro Finance Institution (NBFC-MFI) registered with the Bank under the provisions of Reserve Bank of India Act, 1934 (RBI Act) and having an asset size of below ₹500 crore;

(iv) every Non-Banking Financial Company - Infrastructure Finance Company (NBFC-IFC) registered with the Bank under the provisions of RBI Act, 1934 and having an asset size of below ₹500 crore.

(2) The Category of NBFCs as mentioned in points (i) to (iv) above are hereinafter referred to as ‘applicable NBFCs’, for the purpose of these Directions. Specific directions applicable to specific categories of NBFCs registered as NBFC-Factors, NBFC-IFCs and NBFC-MFIs are as provided for under respective Chapters in these Directions.

(3) These Directions, shall apply to a non-banking financial company being a Government company as defined under clause (45) of section 2 of the Companies

Act, 2013 (Act 18 of 2013). The directions relating to prudential regulation, acceptance of public deposits, corporate governance, conduct of business regulations and statutory provisions etc. shall, however, be followed by the government companies as per the timeline provided in **Annex I**. Government NBFCs that are already complying with the prudential regulation as per the road map submitted by them shall continue to follow the same[1].

(4)(i) The Directions under Chapter IV, paragraph 70 and Chapter V shall not apply to those applicable NBFCs who have not accessed any public funds and do not have any customer interface.

(ii) Applicable NBFCs accessing public funds but having no customer interface are exempt from the applicability of paragraph 70 and Chapter V of the directions.

(iii) Applicable NBFCs having customer interface but not accessing public funds are exempt from the applicability of Chapter IV of the directions.

(5) These Directions consolidate the regulations as issued by Department of Regulation, Reserve Bank of India. However, any other Directions/ guidelines issued by any other Department of the Bank, as applicable to an applicable NBFC shall be adhered to by it.

Chapter II
Definitions

3. For the purpose of these Directions, unless the context otherwise requires:

(i) "Act" means the Reserve Bank of India Act, 1934;

(ii) "Bank" means the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934

(iii) "Break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;

(iv) "Carrying cost" means book value of the assets and interest accrued thereon but not received;

[1]Government Companies were advised vide DNBS.PD/CC.No. 86/03.02.089/2006-07 dated December 12, 2006 to submit to the Reserve Bank [Department of Supervision – (DoS)] a road map for compliance with the various elements of the NBFC regulations, in consultation with the Government.]

(v) ‘Company’ means a company registered under section 3 of the Companies Act, 1956 or a corresponding provision under Companies Act, 2013;

(vi) “Companies in the group”, shall mean an arrangement involving two or more entities related to each other through any of the following relationships: 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 20per cent and above.

(vii) “Conduct of business regulations” means the directions issued by the Bank from time to time on Fair Practices Code and Know Your Customer.

(viii) "Control" shall have the same meaning as is assigned to it under clause (e) of sub-regulation (1) of regulation 2 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

(ix) “Current investment” means an investment which is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made;

(x) “Customer interface” means interaction between the NBFC and its customers while carrying on its business.

(x)(a) “Dividend Payout Ratio” means the ratio between the amount of the dividend payable in a year and the net profit as per the audited financial statements for the financial year for which the dividend is proposed. Proposed dividend shall include both dividend on equity shares and compulsory convertible preference shares eligible for inclusion in Tier I Capital. In case the net profit for the relevant period includes any exceptional and/or extra-ordinary profits/ income or the financial statements are qualified (including ’emphasis of matter’) by the statutory auditor that indicates an overstatement of net profit, the same shall be reduced from net profits while determining the Dividend Payout Ratio.

(xi) “Earning value” means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate:

(a) in case of predominantly manufacturing company, eight per cent;

(b) in case of predominantly trading company, ten per cent; and

(c) in case of any other company, including non-banking financial company, twelve per cent;

Note: If, an investee company is a loss making company, the earning value will be taken at zero;

(xii) "Fair value" means the mean of the earning value and the break up value;

(xiii) "Hybrid debt" means capital instrument which possesses certain characteristics of equity as well as of debt;

(xiv) "NBFC-IFC" means a non-deposit taking NBFC that fulfills the following criteria:

(a) a minimum of 75 per cent of its total assets deployed in "infrastructure loans";

(b) Net owned funds of ₹300 crore or above;

(c) minimum credit rating of 'A' issued by any of the SEBI-registered Credit Rating Agencies;

(d) CRAR of 15 percent (with a minimum Tier I capital of 10 percent).

(xv) "Infrastructure lending" means a credit facility extended by non-banking financial company to a borrower, by way of term loan, project loan subscription to bonds/debentures/preference shares/ equity shares in a project company acquired as a part of the project finance package such that subscription amount to be "in the nature of advance" or any other form of long term funded facility for exposure in the infrastructure sub-sectors as notified by the Department of Economic Affairs, Ministry of Finance, Government of India, from time to time[2].

(xvi) "Non-Banking Financial Company- Investment and Credit Company - (NBFC-ICC)" means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFC as defined by the Bank in any of its Master Directions.

(xvii) "Leverage Ratio" means the total Outside Liabilities/ Owned Funds.

(xviii) "Long term investment" means an investment other than a current investment;

(xix) "NBFC-Factor" means a non-banking financial company as defined in clause (f) of section 45-I of the RBI Act, 1934, which has its principal business as defined in paragraph 42 of these directions and has been granted a certificate of registration under section 3 of the Factoring Regulation Act, 2011.

[2] Modified vide Circular No. DNBR.PD.CC.No. 085/03.10.001/2016-17 dated March 02, 2017

(xx) “NBFC-MFI” means a non-deposit taking NBFC that fulfils the following conditions:

(a) Minimum Net Owned Funds of ₹5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at ₹2 crore).

(b) Not less than 75% of its total assets are in the nature of “microfinance loans” as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

(xxi) “Non-Operative Financial Holding Company (NOFHC)” means a non-deposit taking NBFC referred to in the **"Guidelines for Licensing of New Banks in the Private Sector"**, issued by the Bank, which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by the Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

(xxii) “Net asset value” means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme;

(xxiii) “Net book value” means:

(a) in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 13(2) of these Directions;

(b) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

(xxiv) “Owned fund” means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

(xxv) “Public deposit” for the purpose of the Directions shall have the same meaning as defined in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions 2016.

(xxvi) “Public funds” includes funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures etc. 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.;

(xxvii) "Subordinated debt" means an instrument, which is fully paid up, is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the non-banking financial company. The book value of such instrument shall be subjected to discounting as provided hereunder:

Remaining Maturity of the instruments	Rate of discount
(a) Upto one year	100 per cent
(b) More than one year but upto two years	80 per cent
(c) More than two years but upto three years	60 per cent
(d) More than three years but upto four years	40 per cent
(e) More than four years but upto five years	20 per cent

to the extent such discounted value does not exceed fifty per cent of Tier I capital;

(xxviii) “Substantial interest” means 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 ten per cent of the paid-up capital of the company; or the capital subscribed by all the partners of a partnership firm;

(xxix) “Systemically important non-deposit taking non-banking financial company”, means a non-banking financial company not accepting / holding public deposits and having total assets of ₹500 crore and above as shown in the last audited balance sheet;

(xxx) “Tier I Capital” means owned fund as reduced by investment in shares of other non-banking financial companies and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund;

(xxxi) “Tier II capital” includes the following:

i. preference shares other than those which are compulsorily convertible into equity;

ii. revaluation reserves at discounted rate of fifty five percent;

iii. General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;

iv. hybrid debt capital instruments;

v. subordinated debt; and

to the extent the aggregate does not exceed Tier I capital.

4. Words or expressions used in these Directions but not defined herein and defined in the RBI Act shall have the same meaning as assigned to them in the RBI Act. Any other words or expressions not defined in the RBI Act shall have the same meaning as assigned to them in the Factoring Regulation Act, 2011. Any words or expressions used and not defined in these directions or in the RBI Act or any of the Directions issued by the Bank, shall have the meanings respectively assigned to them under the Companies Act, 1956 or Companies Act, 2013 (Act 18 of 2013) as the case may be.

Chapter III
Registration

5. In exercise of the powers conferred under clause (b) of sub-section (1) of section 45–IA of the RBI Act and all the powers enabling it in that behalf, the Bank, hereby specifies two hundred lakh rupees as the Net Owned Fund (NOF) required for a non-banking financial company to commence or carry on the business of non-banking financial institution, except wherever otherwise a specific requirement as to NOF is prescribed by the Bank.

Provided that a non-banking financial company holding a Certificate of Registration (CoR) issued by the Bank and having NOF of less than two hundred lakhs of rupees, may continue to carry on the business of non-banking financial institution, if such company achieves NOF of two hundred lakh of rupees before April 1, 2017.

It will be incumbent upon such NBFCs, the NOF of which currently falls below ₹200 lakh, to submit a statutory auditor's certificate certifying compliance with the prescribed levels by the end of the period as given above.

NBFCs failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the CoR as NBFCs.

5A. Investment in applicable NBFCs from FATF non-compliant jurisdictions:

(i) Investments in applicable NBFCs from FATF non-compliant jurisdictions shall not be treated at par with those from the compliant[3] jurisdictions. In terms of directions issued vide circular DOR.CO.LIC.CC No.119/03.10.001/2020-21 dated February 12, 2021, new investors from or through non-compliant FATF jurisdictions, whether in existing NBFCs or in companies seeking Certification of Registration (COR), should not be allowed to directly or indirectly acquire 'significant influence' in the investee, as defined in the applicable accounting standards. In other words, fresh investors (directly or indirectly) from such jurisdictions in aggregate should be less than the threshold of 20 per cent of the voting power (including potential voting power[4]) of the NBFC.

(ii) Investors in existing NBFCs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

Section – II: Prudential Issues

Chapter - IV
Prudential Regulations

6. Leverage Ratio

The leverage ratio of an applicable NBFC (except NBFC-MFIs and NBFC-IFCs) shall not be more than 7 at any point of time, with effect from March 31, 2015.

In respect of NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent of more of their financial assets) they shall maintain a minimum Tier I capital of 12 per cent.

[3] The Financial Action Task Force (FATF) periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in its following publications: i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring. A jurisdiction, whose name does not appear in the two aforementioned lists, shall be referred to as a FATF compliant jurisdiction.

[4] Potential voting power could arise from instruments that are convertible into equity, other instruments with contingent voting rights, contractual arrangements, etc. that grant investors voting rights (including contingent voting rights) in the future. In such cases, it should be ensured that new investments from FATF non-compliant jurisdictions are less than both (i) 20 per cent of the existing voting powers and (ii) 20 per cent of existing and potential voting powers assuming those potential voting rights have materialised.

7. Income recognition

(1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount/ hire charges/ lease rentals 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.

(3) In cases of loans where moratorium has been granted for repayment of interest, the interest income may be recognised on accrual basis for accounts which continue to be classified as 'standard'.

(4) If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

8. Income from investments

(1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis:

Provided that the income from dividend on shares of corporate bodies shall be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the applicable NBFC's right to receive payment is established.

(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds shall be taken into account on accrual basis:

Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

(3) 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 shall be taken into account on accrual basis.

9. Accounting standards

NBFCs that are required to implement Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 shall prepare their financial statements in accordance with Ind AS notified by the Government of India and shall comply with the regulatory guidance specified in Annex XX of these Directions. Disclosure requirements for notes to accounts specified in these directions shall continue to apply. Other NBFCs shall comply with the requirements of notified Accounting Standards (AS) insofar as they are not inconsistent with any of these directions.

10. Accounting of investments

(1) (i) The Board of Directors of every applicable NBFC shall frame investment policy for the company and shall implement the same;

(ii) 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;

(iii) Investments in securities shall be classified into current and long term, at the time of making each investment;

(iv) In case of inter-class transfer –

(a) There shall be no such transfer on ad-hoc basis;

(b) such 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;

(c) the investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;

(d) the depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;

(e) 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.

(2) (i) 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.

(ii) 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 for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the 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.

(3) Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. However, applicable NBFCs may substitute fair value for the breakup 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.

(4) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.

(5) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

(6) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

(7) Commercial papers shall be valued at carrying cost.

(8) A long term investment shall be valued in accordance with the Accounting Standard 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.

11. Need for policy on demand/ call loans

(1) The Board of Directors of every applicable NBFC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

(2) Such policy shall, inter alia, stipulate the following -

  (i) A cut-off date within which the repayment of demand or call loan shall be demanded or called up;

  (ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut-off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;

  (iii) The rate of interest which shall be payable on such loans;

  (iv) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;

  (v) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;

  (vi) A cut-off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;

  (vii) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

12. Asset classification

The asset classification norms as given below shall apply to every applicable NBFC (except NBFC-MFIs):

(1) Every 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 classes, namely:

  (i) Standard assets;

  (ii) Sub-standard assets;

  (iii) Doubtful assets; and

  (iv) Loss assets.

(2) 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.

(3) (i) Standard asset shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;

(ii) "sub-standard asset" shall mean:

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;

(b) an 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:

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 25 of the Directions;

(iii) "doubtful asset" shall mean:

a. a term loan, or
b. a lease asset, or
c. a hire purchase asset, or
d. any other asset,

which remains a sub-standard asset for a period exceeding 18 months;

(iv) loss asset shall mean:

(a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and

(b) an 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.

(v) Non-Performing Asset (referred to in these Directions as “NPA”) shall mean:

a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
d) a bill which remains overdue for a period of six months or more;
e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans / advances, which facility remained overdue for a period of six months or more;
f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;
h) in respect 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;

Provided that in the case of lease and hire purchase transactions, an applicable NBFC shall classify each such account on the basis of its record of recovery.

12A. Clarifications on Asset Classficiation, etc. [5]

The instructions as given below shall apply to every applicable NBFC, including NBFC-MFI:

(1) An amount is to be treated as overdue if it is not paid on the due date fixed by the NBFC. The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/ NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be

[5] Vide circulars DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021 and DOR.STR.REC.85/21.04.048/2021-22 dated February 15, 2022

apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/ loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/ or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. In case of existing loans, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/ review.

(2) Every NBFC shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the categories specified in para 1.1.1 of Annex XVIII of these directions.

(3) The above instructions on SMA classification of borrower accounts are applicable to all loans, including retail loans, irrespective of size of exposure of the lending institution.

(4) The borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

> *Example:* *If due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.*
>
> *Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process as per extant asset classification norms.*

(5) Loan accounts classified as NPAs may be upgraded as ‘standard’ asset only if entire arrears of interest and principal are paid by the borrower. NBFCs shall have time till September 30, 2022 to put in place the necessary systems to implement this provision.

In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commence of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

(6) Consumer Education on SMA/ NPA

With a view to increasing awareness among the borrowers, NBFCs should place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. NBFCs shall also consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Further, it shall also be ensured that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans.

13. Provisioning requirements

The provisioning requirements as given below shall apply to every applicable NBFC (except NBFC-MFIs):

Every applicable 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 hereunder:-

Loans, advances and other credit facilities including bills purchased and discounted-

(1) The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

(i) Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding shall be provided for;
(ii) Doubtful Assets	(a) 100 per cent provision to the extent to which the advance is not covered by the realisable value of the security to which the applicable NBFC has a valid recourse shall

be made. The realisable value is to be estimated on a realistic basis;

(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20 per cent to 50 per cent of the secured portion (i.e. Estimated realisable value of the outstanding) shall be made on the following basis:-

Period for which the asset has been considered as doubtful	Per cent of provision
Up to one year	20
One to three years	30
More than three years	50

(iii) Sub-standard assets — A general provision of 10 per cent of total outstanding shall be made.

(2) Lease and hire purchase assets -The provisioning requirements in respect of hire purchase and leased assets shall be as under:

(i) Hire purchase assets - In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by

(a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and

(b) the depreciated value of the underlying asset shall be provided for.

Explanation: For the purpose of this paragraph,

1. the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and
2. in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

Additional provision for hire purchase and leased assets

(ii) In respect of hire purchase and leased assets, additional provision shall be made as under:

(a)	Where hire charges or lease rentals are overdue upto 12 months	Nil
(b)	Where hire charges or lease rentals are overdue for more than 12 months upto 24 months	10 per cent of the net book value
(c)	Where hire charges or lease rentals are overdue for more than 24 months but upto 36 months	40 per cent of the net book value
(d)	Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 per cent of the net book value
(e)	Where hire charges or lease rentals are overdue for more than 48 months	100 per cent of the net book value

(iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

Notes:

1. The amount of caution money/margin money or security deposits kept by the borrower with the applicable NBFC in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement shall be deducted only against the provisions stipulated under clause (ii) above.
2. The amount of security deposits kept by the borrower with the applicable NBFC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement shall be deducted only against the provisions stipulated under clause (ii) above.
3. It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised shall not be taken as reason for not making provision.

4. An asset which has been renegotiated or rescheduled as referred to in paragraph 12(3)(ii)(b) of these Directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or re-schedulement as a doubtful asset or a loss asset as the case may be. Necessary provision shall be made as applicable to such asset till it is upgraded.
5. The balance sheet to be prepared by the NBFC shall be in accordance with the provisions contained in sub-paragraph (2) of paragraph 17 of the Directions.
6. All financial leases written on or after April 1, 2001 shall attract the provisioning requirements as applicable to hire purchase assets.

14. Standard asset provisioning

Every applicable NBFC shall make provision for standard assets at 0.25 per cent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

15. Guidelines on Liquidity Risk Management Framework

Applicable NBFCs having an asset size of ₹100 crore and above, as per their last audited balance sheet, shall adhere to the set of liquidity risk management guidelines as detailed in **Annex II** of these Directions. However, these guidelines will not apply to Type I NBFC-NDs[6], Non-Operating Financial Holding Companies and Standalone Primary Dealers. It will be the responsibility of the Board of each NBFC to ensure that the guidelines are adhered to. The internal controls required to be put in place by NBFCs as per these guidelines shall be subject to supervisory review. Further, as a matter of prudence, all other NBFCs are also encouraged to adopt these guidelines on liquidity risk management on voluntary basis.

16. Multiple NBFCs

Applicable NBFCs that are part of a corporate group or are floated by a common set of promoters shall not be viewed on a standalone basis. The total assets of the NBFCs in a group including deposit taking NBFCs, if any, shall be aggregated to determine if such consolidation falls within the asset sizes of the two categories i.e.

[6] Type I NBFC-ND as defined in RBI press release dated June 17, 2016.

those with asset size of below ₹500 crore and those with asset size of ₹500 crore and above. The regulations as applicable to the two categories shall be applicable to each of the non-deposit taking NBFC within the group. For this purpose, Statutory Auditors are required to certify the asset size of all the NBFCs in the Group. However, NBFC-D, within the group, if any, shall be governed under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Direction 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 as applicable to deposit taking NBFCs.

17. Disclosure in the balance sheet

(1) Every applicable NBFC shall separately disclose in its balance sheet the provisions made as per these Directions without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of account as under:-

(i) provisions for bad and doubtful debts; and

(ii) provisions for depreciation in investments.

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the applicable NBFC.

(4) 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.

18. Accounting year

(1) Every applicable NBFC shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever an applicable NBFC intends to extend the date of its balance sheet as per provisions of the Companies Act, 2013, it shall take prior approval of the Bank before approaching the Registrar of Companies for this purpose.

(2) Even in cases where the Bank and the Registrar of Companies grant extension of time, the applicable 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. Every applicable NBFC shall finalise its balance sheet within a period of 3 months from the date to which it pertains.

18A. Declaration of dividend by applicable NBFCs:

NBFCs shall comply with the following guidelines to declare dividends.

(1) The Board of Directors, while considering the proposals for dividend, shall take into account each of the following aspects:

(a) Supervisory findings of the Reserve Bank on divergence in classification and provisioning for Non-Performing Assets (NPAs).

(b) Qualifications in the Auditors Report to the financial statements.

(c) Long term growth plans of the NBFC.

(2) Only NBFCs that meet the following minimum prudential requirements shall declare dividend:

a) NBFCs shall have met the minimum capital requirements (including leverage ratio wherever applicable) prescribed under this Master Direction in each of the last three[7] financial years including the financial year for which the dividend is proposed.
b) The net NPA ratio shall be less than six per cent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.
c) NBFCs shall comply with the provisions of Section 45 IC of the Reserve Bank of India Act, 1934.
d) NBFCs shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank. The Reserve Bank shall not have placed any explicit restrictions on declaration of dividend.

(3) NBFCs that meet the eligibility criteria specified in paragraph (2) above can declare dividend upto a dividend payout ratio of 50 per cent. There will be no ceiling on dividend payout ratio for eligible NBFCs that do not accept public funds and have no customer interface.

(4) An NBFC which does not meet the applicable capital ratio (including leverage ratio wherever applicable) requirements and/ or the net NPA ratio requirement as above, for each of the last three financial years, shall be eligible to declare dividend,

[7] Where an NBFC has been in existence for less than three financial years, it shall be since registration.

subject to a cap of 10 per cent on the dividend payout ratio, provided the NBFC complies with both the following conditions:

a) meets the applicable minimum capital requirement (including leverage ratio wherever applicable), as per this Master Direction, in the financial year for which it proposes to pay dividend, and
b) has net NPA of less than four per cent as at the close of the said financial year.

(5) The Board shall ensure that the total dividend proposed for the financial year does not exceed the ceilings specified in these guidelines. The Reserve Bank shall not entertain any request for ad-hoc dispensation on declaration of dividend.

19. Schedule to the balance sheet

Every applicable NBFC shall append to its balance sheet prescribed under the Companies Act, 2013, the particulars in the schedule as set out in **Annex III**.

20. Transactions in Government securities

Every applicable NBFC shall undertake transactions in Government securities through its gilt account or its demat account or any other account, as permitted by the Bank.

21. Loans against NBFCs own shares prohibited

No applicable NBFC shall lend against its own shares.

22. Loans against security of shares

Applicable NBFC with asset size of ₹100 crore and above lending against the collateral of listed shares shall,

(i) maintain a Loan to Value (LTV) ratio of 50 per cent for loans granted against the collateral of shares. LTV ratio of 50 per cent is required to be maintained at all times. Any shortfall in the maintenance of the 50 per cent LTV occurring on account of movement in the share prices shall be made good within 7 working days.

(ii) in case where lending is being done for investment in capital markets, accept only Group 1 securities (specified in SMD/ Policy/ Cir - 9/ 2003 dated March

11, 2003 as amended from time to time, issued by SEBI) as collateral for loans of value more than ₹5 lakh, subject to review by the Bank.

(iii) report on-line to stock exchanges on a quarterly basis, information on the shares pledged in their favour, by borrowers for availing loans in format as given in **Annex IV**.

23. Concentration of credit/ investment for applicable NBFC

(1) An applicable NBFC which is held by an NOFHC shall not

(i) have any exposure (credit and investments including investments in the equity/ debt capital instruments) to the Promoters/ Promoter Group entities or individuals associated with the Promoter Group or the NOFHC;

(ii) make investment in the equity/ debt capital instruments in any of the financial entities under the NOFHC;

(iii) invest in equity instruments of other NOFHCs.

Explanation: For the purposes of this paragraph, the expression, 'Promoter' and 'Promoter Group' shall have the meanings assigned to those expressions in the "Guidelines for Licensing of New Banks in the Private Sector" issued by the Bank - **Annex V**.

24. Information with respect to change of address, directors, auditors, etc. to be submitted

Every applicable NBFC shall communicate, not later than one month from the occurrence of any change in:

(i) the complete postal address, telephone number/s and fax number/s of the registered/ corporate office;

(ii) the names and residential addresses of the directors of the company;

(iii) the names and the official designations of its principal officers;

(iv) the names and office address of the auditors of the company; and

(v) the specimen signatures of the officers authorised to sign on behalf of the company

to the Regional Office of the Department of Supervision of the Bank under whose jurisdiction it is registered.

25. Norms for restructuring of advances

Norms for restructuring of advances by applicable NBFCs are as set forth in **Annex VI**. For projects under implementation, the instructions in Annex VI and circular DoR.NBFC (PD).CC.No.110/03.10.001/2019-20 dated April 17, 2020 on 'Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation' shall be applicable.

26. Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries

Norms for Flexible Structuring of Long Term project loans to Infrastructure and Core Industries by applicable NBFCs shall be on the lines of the norms specified by the Bank for banks as modified and set forth in **Annex VII**.

27. Loans against security of single product - Gold Jewellery

(1) (a) All applicable NBFCs shall

(i) maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery;

Provided that the value of gold jewellery for the purpose of determining the maximum permissible loan amount shall be the intrinsic value of the gold content therein and no other cost elements shall be added thereto. The intrinsic value of the gold jewellery shall be arrived at as detailed in paragraph (3) below.

(ii) disclose in their balance sheet the percentage of such loans to their total assets.

(b) NBFCs shall not grant any advance against bullion / primary gold and gold coins. The NBFCs shall not grant any advance for purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of Exchange Traded Funds (ETF) and units of gold mutual fund.

(2) Verification of the Ownership of Gold

(a) Where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs shall keep a record of the verification of the ownership of the jewellery. The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document shall be prepared to explain how the ownership of the jewellery has been determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams.

(b) NBFCs shall have an explicit policy in this regard as approved by the Board in their overall loan policy.

(3) Standardization of Value of Gold accepted as collateral in arriving at LTV Ratio

(a) The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by the following method:

i) The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by the Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission.

ii) If the purity of the gold is less than 22 carats, the NBFC shall translate the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

iii) NBFC, while accepting gold as collateral, shall give a certificate to the borrower on their letterhead, of having assayed the gold and state the purity (in terms of carats) and the weight of the gold pledged.

iv) NBFCs may have suitable caveats to protect themselves against disputes during redemption, but the certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction.

(4) Auction

(a) The auction shall be conducted in the same town or taluka in which the branch that has extended the loan is located. NBFCs can however pool gold jewellery from different branches in a district and auction it at any location within the district, subject to meeting the following conditions:

(i) The first auction has failed.

(ii) The NBFC shall ensure that all other requirements of the extant directions regarding auction (prior notice, reserve price, arms-length relationship, disclosures, etc.) are met.

Non-adherence to the above conditions will attract strict enforcement action.

(b) While auctioning the gold the NBFC must declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments shall not be less than 85 per cent of the previous 30 day average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission and value of the jewellery of lower purity in terms of carats shall be proportionately reduced.

(c) It shall be mandatory on the part of the NBFCs to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding shall be payable to the borrower.

(d) NBFCs shall disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction.

(5) Safety and security measures to be followed by Non-Banking Financial Companies lending against collateral of gold jewellery

(a) Non-Banking Financial Companies, which are in the business of lending against collateral of gold jewellery, shall ensure that necessary infrastructure and facilities are put in place, including safe deposit vault and appropriate security measures for operating the vault, in each of its branches where gold jewellery is accepted as collateral. This is required to safeguard the gold jewellery accepted as collateral and to ensure convenience of borrowers.

(b) No new branch/es shall be opened without suitable arrangements for security and for storage of gold jewellery, including safe deposit vault.

(6) Opening Branches exceeding one thousand in number

Non-Banking Financial Company which are in the business of lending against collateral of gold jewellery, shall obtain prior approval of the Bank to open branches exceeding 1000. However, NBFCs which already have more than 1000 branches shall approach the Bank for prior approval for any further branch expansion. Besides, no new branches shall be allowed to be opened without the facilities for storage of gold jewellery and minimum security facilities for the pledged gold jewellery.

Chapter – V
Fair Practices Code for applicable NBFC

Applicable NBFCs having customer interface shall adopt the following guidelines:

28. Applications for loans and their processing

(1) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.

(2) Loan application forms shall include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form shall indicate the documents required to be submitted with the application form.

(3) Applicable NBFCs shall devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of shall also be indicated in the acknowledgement.

29. Loan appraisal and terms/conditions

Applicable NBFCs shall convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. As complaints received against NBFCs generally pertain to charging of high interest / penal charges, applicable NBFCs shall mention the penalties charged for late repayment in bold in the loan agreement.

Borrowers may not be fully aware of the terms and conditions of the loans including rate of interest at the time of sanction of loans, either because the NBFC does not provide details of the same or the borrower has no time to look into detailed agreement. Not furnishing a copy of the loan agreement or enclosures quoted in the loan agreement is an unfair practice and this could lead to disputes between the NBFC and the borrower with regard to the terms and conditions. Applicable NBFCs, shall furnish a copy of the loan agreement as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

29A. Penal Charges in Loan Accounts[8]

(1) Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as ‘penal charges’ and shall not be levied in the form of ‘penal interest’ that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.

(2) The NBFCs shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.

(3) The NBFCs shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.

(4) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.

(5) The penal charges in case of loans sanctioned to ‘individual borrowers, for purposes other than business’, shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

(6) The quantum and reason for penal charges shall be clearly disclosed by NBFCs to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on NBFCs website under Interest rates and Service Charges.

(7) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

(8) These instructions shall come into effect from January 01, 2024. NBFCs may carry out appropriate revisions in their policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date or six months from the effective date of these instructions, whichever is earlier.

[8] Inserted vide DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023

30. Disbursement of loans including changes in terms and conditions

(1) Applicable NBFCs shall give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. Applicable NBFCs shall also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard must be incorporated in the loan agreement.

(2) Decision to recall/ accelerate payment or performance under the agreement shall be in consonance with the loan agreement.

(3) Applicable NBFCs shall release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim they may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which applicable NBFCs are entitled to retain the securities till the relevant claim is settled/ paid.

30A. [9]Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans[10]

(1) At the time of sanction of EMI based floating rate personal loans, NBFCs are required to take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the interest rate during the tenor of the loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received. In order to address these concerns, the NBFCs are advised to put in place an appropriate policy framework meeting the following requirements for implementation and compliance:

(i) At the time of sanction, NBFCs shall clearly communicate to the borrowers about the possible impact of change in interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on

[9] Inserted vide DOR.MCS.REC.32/01.01.003/2023-24 dated August 18, 2023

[10] As defined in the RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 dated January 04, 2018 on "XBRL Returns – Harmonization of Banking Statistics".

account of the above shall be communicated to the borrower immediately through appropriate channels.

(ii) At the time of reset of interest rates, NBFCs shall provide the option to the borrowers to switch over to a fixed rate as per their Board approved policy. The policy, *inter alia*, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.

(iii) The borrowers shall also be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.

(iv) All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the NBFCs from time to time.

(v) NBFCs shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.

(vi) NBFCs shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The NBFCs shall ensure that the statements are simple and easily understood by the borrower.

(2) Apart from the equated monthly instalment loans, these instructions would also apply, *mutatis mutandis*, to all equated instalment based loans of different periodicities.

(3) NBFCs shall ensure that the above instructions are extended to the existing as well as new loans suitably by December 31, 2023. All existing borrowers shall be sent a communication, through appropriate channels, intimating the options available to them.

31. General

(1) Applicable NBFCs shall refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless information, not earlier disclosed by the borrower, has been noticed).

(2) In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e., objection of the applicable NBFC, if any, shall be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.

(3) In the matter of recovery of loans, an applicable NBFC shall not resort to undue harassment viz., persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc. As complaints from customers also include rude behaviour from the staff of the companies, applicable NBFC shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.

(4) As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, applicable NBFCs shall not charge foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned for purposes other than business to individual borrowers, with or without co-obligant(s).

32. Responsibility of Board of Directors

The Board of Directors of applicable NBFCs shall also lay down the appropriate grievance redressal mechanism within the organization. Such a mechanism shall ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors shall also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews shall be submitted to the Board at regular intervals, as may be prescribed by it.

33. Grievance Redressal Officer

At the operational level, all applicable NBFCs shall display the following information prominently, for the benefit of their customers, at their branches/ places where business is transacted:

(1) the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company.

(2) If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of Department of Supervision of the Bank (with complete contact details), under whose jurisdiction the registered office of the applicable NBFC falls.

34. Reserve Bank – Integrated Ombudsman Scheme, 2021

NBFCs covered under the Reserve Bank – Integrated Ombudsman Scheme, 2021 shall appoint Principal Nodal Officer in accordance with directions provided under the said Scheme.

35. Language and mode of communicating Fair Practice Code

Fair Practices Code (which shall preferably be in the vernacular language or a language as understood by the borrower) based on the guidelines outlined hereinabove shall be put in place by all applicable NBFCs having customer interface with the approval of their Boards. Applicable NBFCs will have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the spirit underlying the above guidelines. The same shall be put up on their website, if any, for the information of various stakeholders.

36. Regulation of excessive interest charged by applicable NBFC

(1) The Board of each applicable NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

(2) The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.

(3) The rate of interest must be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

37. Complaints about excessive interest charged by Applicable NBFCs

The Bank has been receiving several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFC. Though interest rates are not regulated by the Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of applicable NBFCs shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In this regard, the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans are to be kept in view.

38. Repossession of vehicles financed by applicable NBFCs

(1) Applicable NBFCs must have a built-in re-possession clause in the contract/loan agreement with the borrower which must be legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement shall also contain provisions regarding:

(i) notice period before taking possession;

(ii) circumstances under which the notice period can be waived;

(iii) the procedure for taking possession of the security;

(iv) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property;

(v) the procedure for giving repossession to the borrower; and

(vi) the procedure for sale / auction of the property.

(2) A copy of such terms and conditions must be made available to the borrower. Applicable NBFCs shall invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction/ disbursement of loans, which forms a key component of such contracts/ loan agreements.

39. Lending against collateral of Gold Jewellery

While lending to individuals against collateral of gold jewellery, applicable NBFCs shall adopt the following in addition to the general guidelines as above.

(i) They shall put in place Board approved policy for lending against gold that shall inter alia, cover the following:

(a) Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,

(b) Proper assaying procedure for the jewellery received,

(c) Internal systems to satisfy ownership of the gold jewellery,

(d) Adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans shall not be extended by branches that do not have appropriate facility for storage of the jewellery,

(e) The jewellery accepted as collateral shall be appropriately insured,

(f) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities,

(g) The auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper,

(h) As a policy, the applicable NBFCs themselves shall not participate in the auctions held,

(i) Gold pledged shall be auctioned only through auctioneers approved by the Board,

(j) The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

(ii) The loan agreement shall also disclose details regarding auction procedure.

(iii) Other Instructions

a) NBFCs financing against the collateral of gold must insist on a copy of the PAN Card of the borrower for all transaction above ₹5 lakh.

b) Documentation across all branches must be standardized.

c) NBFCs shall not issue misleading advertisements like claiming the availability of loans in a matter of 2-3 minutes.

Chapter –VI
Specific Directions applicable to NBFC-Factors[11]

40. Registration

(1) Every company intending to undertake factoring business shall make an application to the Bank for grant of CoR as NBFC-Factor under section 3 of the Factoring Regulation Act, 2011 and shall ensure compliance with principal business criteria(PBC) as stipulated in paragraph 42 of these directions.

(2) Any existing non-systemically important NBFC-ICC, intending to undertake factoring business, shall approach the Bank for conversion from NBFC-ICC to NBFC-Factor. Such NBFC-ICCs shall comply with the PBC as specified in paragraph 42 of these directions.

(3) Application for such conversion shall be submitted with all supporting documents meant for new registration as NBFC-Factor, together with surrender of original CoR issued by the Bank to the NBFC-ICC under section 45-IA of the RBI Act, 1934.

(4) An entity not registered with the Bank under the Factoring Regulation Act, 2011 may conduct the business of factoring, if it is an entity mentioned in section 5 of the Factoring Regulation Act, 2011, i.e., a bank or a body corporate established under an Act of Parliament or State Legislature, or a Government Company;

(4) NBFC-Factor shall commence factoring business within six months from the date of grant of CoR.

41. Net Owned Fund

Every company seeking registration as NBFC-Factor shall have a minimum Net Owned Fund (NOF) of ₹5 crore, or as specified by the Bank from time to time.

42. Principal Business

An NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least fifty per cent of its total assets and its income derived from factoring business is not less than fifty per cent of its gross income.

[11] Notification No. DOR.FIN.080/CGM(JPS) – 2022 dated January 14, 2022 (published in Official Gazette – Extraordinary – Part-III, Section 4 dated January 17, 2022)

43. Conduct of business and prudential regulations

NBFC-Factors shall conduct the factoring business in accordance with the Factoring Regulation Act, 2011 and the rules and regulations framed under it or the directions and guidelines issued by the Bank from time to time.

44. Asset Classification

In addition to the prudential norms contained in Chapter IV of these Directions, for an NBFC-Factor, a receivable acquired under factoring which is not paid within six months of due date as applicable, shall be treated as NPA irrespective of when the receivable was acquired by the factor or whether the factoring was carried out on "with recourse" basis or "without-recourse" basis. The entity on which the exposure was booked shall be shown as NPA and provisioning made accordingly.

45. Exposure norms shall be reckoned as under:

a. In case of factoring on "with-recourse" basis, the exposure shall be reckoned on the assignor.

b. In case of factoring on "without-recourse" basis, the exposure shall be reckoned on the debtor, irrespective of credit risk cover / protection provided, except in cases of international factoring where the entire credit risk has been assumed by the import factor.

46. Risk Management

Proper and adequate control and reporting mechanisms shall be put in place before factoring business is undertaken by an NBFC-Factor.

a. NBFC-Factors shall carry out a thorough credit appraisal of the debtors before entering into any factoring arrangement or prior to establishing lines of credit with the export factor.

b. Factoring services shall be extended in respect of invoices which represent genuine trade transactions.

c. Since under “without recourse” factoring transactions, the NBFC-Factor is underwriting the credit risk on the debtor, there shall be a clearly laid down board-approved limit for all such underwriting commitments.

d. NBFC-Factors and banks shall share information about common borrowers. For the purpose of exchange of information, the assignor will be deemed to be the borrower. NBFC-Factors shall ensure to intimate the limits sanctioned to the borrower to the concerned banks / NBFCs and details of debts factored so as to avoid double financing.

47. Export/ Import Factoring

Foreign Exchange Department (FED) of the Bank gives authorization to Factors under FEMA, 1999. NBFC-Factors, intending to deal in foreign exchange through export/import factoring, shall make an application to FED for necessary authorization under FEMA, 1999 to deal in foreign exchange and adhere to the terms and conditions prescribed by FED and all the relevant provisions of the FEMA or Rules, Regulations, Notifications, Directions or Orders made thereunder from time to time.

Chapter – VII
Specific Directions applicable to Infrastructure Finance Companies (NBFC-IFCs)

48. Capital Requirements

(1) Every NBFC-IFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.

(2) The Tier I capital, at any point of time, shall not be less than 8.5% by March 31, 2016 and 10% by March 31, 2017.

Explanations:

I. On balance sheet assets–

(1) In these Directions, degrees of credit risk expressed as percentage weightages have been assigned to balance sheet assets. Hence, the value of each asset / item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the minimum capital ratio. The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Weighted risk assets - On-Balance Sheet items	Percentage weight
(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) Investments	
(a) Approved securities [Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) Fixed deposits/ certificates of deposits/bonds of public financial institutions	100
(d) Shares of all companies and debentures/ bonds/ commercial papers of all companies and units of all mutual funds	100
(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation.	50
(iii) Current assets	
(a) Stock on hire (net book value)	100
(b) Intercorporate loans/ deposits	100
(c) Loans and advances fully secured against deposits held	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good[Except at (vi) below]	100
(f) Bills purchased/ discounted	100
(g) Others (To be specified)	100
(iv) Fixed Assets (net of depreciation)	
(a) Assets leased out (net book value)	100

(b) Premises	100
(c) Furniture & Fixtures	100
(v) Other assets	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100
(vi) Domestic Sovereign	
(a) fund based claims on the Central Government	0
(b) Direct loan/ credit/ overdraft exposure and investment in State Government securities	0
(c) Central Government guaranteed claims	0
(d) State Government guaranteed claims, which have not remained in default/ which are in default for a period not more than 90 days	20
(e) State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

Notes:

1. Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.

2. Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of 'zero'.

3. While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, such non-banking financial companies shall net off the amount of cash margin/ caution money/ security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.

4.[12] (i) Applicable NBFCs are permitted to apply zero percent risk weights in respect of exposures guaranteed under any existing or future schemes launched by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) provided they satisfy the following conditions:

(a) Prudential Aspects**:** The guarantees provided under the respective schemes should comply with the requirements for credit risk mitigation in terms of paragraph 7.5 of the 'Master Circular on Basel III Capital Regulations' dated April 01, 2022, as amended from time to time, which, *inter alia*, requires such guarantees to be direct, explicit, irrevocable and unconditional;

(b) Restrictions on permissible claims**:** Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by member lending institutions (MLI), payout cap, etc., the zero percent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.

(c) In case of a portfolio-level guarantee, effective from April 01, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.

(ii) Further, subject to the aforementioned prescriptions at clause (i) above, any future scheme launched under any of the aforementioned Trust Funds, in order to be eligible for zero percent risk weight, shall provide for settlement of the eligible guaranteed claims within thirty days from the date of lodgement, and the lodgement shall be permitted within sixty days from the date of default.

(iii) The above regulatory stipulation shall be applicable to the applicable NBFCs, to the extent they are recognised as eligible MLIs under the respective schemes.

(iv) Some illustrative examples of risk weights applicable on claims guaranteed under specific existing schemes are given below:

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[12] Inserted vide Circular DOR.STR.REC.67/21.06.201/2022-23 dated September 07, 2022.

Illustrative Examples - Risk Weights (RW) applicable on credit facilities guaranteed under specific existing schemes

(Guarantee coverage, first loss percentage and payout cap ratio may be factored in as given below and as amended from time to time in the respective schemes)

Scheme name	Guarantee Cover	Risk weight
1. Credit Guarantee Fund Scheme for Factoring (CGFSF)	The first loss of 10% of the amount in default to be borne by Factors. The remaining 90% (i.e. second loss) of the amount in default will be borne by NCGTC and Factors in the ratio of 2:1 respectively	• First loss of 10% amount in default – Full capital deduction • 60% amount in default borne by NCGTC- 0% RW. • Balance 30% amount in default - Counterparty/Regulatory Retail Portfolio (RRP) RW as applicable. **Note**: The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.
2. Credit Guarantee Fund Scheme for Skill Development (CGFSD)	75% of the amount in default. 100% of the guaranteed claims shall be paid by the Trust after all avenues for recovery have been exhausted and there is no scope for recovering the default amount.	• Entire amount in default - Counterparty/ Regulatory Retail Portfolio (RRP) RW as applicable.
3. Credit Guarantee Fund for Micro Units (CGFMU)	Micro Loans The first loss to the extent of 3% of amount in default. Out of the balance, guarantee will be to a maximum extent of 75% of the amount in default in the crystallized portfolio	• First loss of 3% amount in default – Full capital deduction • 72.75% of the amount in default - 0% RW, subject to maximum of $(\{15\% * CP\} - C) * \left[\frac{SLA}{CP}\right]$ Where- ○ CP = Crystallized Portfolio (sanctioned amount) ○ C = Claims received in previous years, if any, in the crystallized portfolio ○ SLA = Sanctioned limit of each account in the crystallized portfolio ○ 15 per cent represents the payout cap

		• Balance amount in default - Counterparty/ RRP RW as applicable. **Note**: The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.
4. CGTMSE guarantee coverage for Micro-Enterprises	Upto ₹5 lakh 85% of the amount in default subject to a maximum of ₹4.25 lakh Above ₹5 lakh & upto ₹50 lakh 75% of the amount in default subject to a maximum of ₹37.50 lakh Above ₹50 lakh & upto ₹200 lakh 75% of the amount in default subject to a maximum of ₹150 lakh	• Guaranteed amount in default – 0% RW* • Balance amount in default - Counterparty/ RRP RW as applicable.
*In terms of the payout cap stipulations of CGTMSE, claims of the member lending institutions will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. However, since the balance claims will be settled in subsequent year/s as the position is remedied, the entire extent of guaranteed portion may be assigned zero percent risk weight.		

II. Off-balance sheet items

(1) General

NBFC-IFCs shall calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure shall be calculated by means of a two-step process:

(i) the notional amount of the transaction shall be converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and

(ii) the resulting credit equivalent amount shall be multiplied by the risk weight applicable viz., zero per cent for exposure to Central Government/ State Governments, 20 per cent for exposure to banks and 100 per cent for others.

(2) Non-market-related off- balance sheet items

(i) The credit equivalent amount in relation to a non-market related off-balance sheet item shall be determined by multiplying the contracted amount of that particular transaction by the relevant credit conversion factor (CCF).

Sr. No.	Instruments	Credit Conversion Factor
i.	Financial & other guarantees	100
ii.	Share/ debenture underwriting obligations	50
iii.	Partly-paid shares/ debentures	100
iv.	Bills discounted/ rediscounted	100
v.	Lease contracts entered into but yet to be executed	100
vi.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the applicable NBFC	100
vii.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.	100
viii.	Lending of NBFC securities or posting of securities as collateral by the NBFC-IFC, including instances where these arise out of repo style transactions	100
ix.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of up to one year over one year	 20 50
x.	Similar commitments that are unconditionally cancellable at any time by the NBFC-IFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's credit worthiness	0
xi.	Take-out Finance in the books of taking-over institution	
	(i) Unconditional take-out finance	100

	(ii) Conditional take-out finance	50 Note: As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.
xii.	Commitment to provide liquidity facility for securitization of standard asset transactions	100
xiii.	Second loss credit enhancement for securitization of standard asset transactions provided by third party	100
xiv.	Other contingent liabilities (To be specified)	50

Note:

1. Cash margins/ deposits shall be deducted before applying the conversion factor

2. Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of NBFC-IFCs on-balance sheet credit exposure.

For example:

A term loan of ₹700 crore is sanctioned for a large project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – ₹150 crore in Stage I, ₹200 crore in Stage II and ₹350 crore in Stage III, where the borrower needs the NBFC-IFCs explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already ₹50 crore under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be ₹100 crore. If Stage I is scheduled to be completed within one year, the CCF will be 20 per cent and if it is more than one year then the applicable CCF will be 50 per cent.

(3) Market Related Off-Balance Sheet Items

(i) NBFC-IFCs shall take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo/ reverse repo/ CBLO, etc.) while calculating the risk weighted off-balance sheet credit exposures.

(ii) The credit risk on market related off-balance sheet items is the cost to an NBFC-IFC of replacing the cash flow specified by the contract in the event of counterparty default. This shall depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.

(iii) Market related off-balance sheet items shall include:

(a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

(b) foreign exchange contracts, including contracts involving gold, - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;

(c) Credit Default Swaps; and

(d) any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.

(iv) Exemption from capital requirements is permitted for -

(a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and

(b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.

(v) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them shall be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.

(vi) A CCF of 100 per cent shall be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure shall be assigned risk weights appropriate to the nature of the CCPs. In the case of

Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent and for other CCPs, risk weight shall be 50 per cent.

(vii) The total credit exposure to a counter party in respect of derivative transactions shall be calculated according to the current exposure method as explained below.

(4) Current Exposure Method

The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of (i) current credit exposure and (ii) potential future credit exposure of the contract.

(i) Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty shall not be netted). The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market.

(ii) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives		
Credit Conversion Factors (per cent)		
	Interest Rate Contracts	**Exchange Rate Contracts & Gold**
One year or less	**0.50**	**2.00**
Over one year to five years	**1.00**	**10.00**
Over five years	**3.00**	**15.00**

a. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.
b. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity shall be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.
c. No potential future credit exposure shall be calculated for single currency floating / floating interest rate swaps; the credit exposure on these contracts shall be evaluated solely on the basis of their mark-to-market value.
d. Potential future exposures shall be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the NBFC-IFC would have an effective notional amount of USD 2 million.

(5) Credit conversion factors for Credit Default Swaps (CDS):

NBFC-IFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds shall be held in current category or permanent category. The capital charge for these exposures will be as under:

(i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection shall be permitted to be recognised to a maximum of 80 per cent of the exposure hedged. Therefore, the NBFC-IFC shall continue to maintain capital charge for the corporate bond to the extent of 20 per cent of the applicable capital charge. This can be achieved by taking the exposure value at 20 per cent of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position shall attract a capital charge for counterparty risk which shall be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFC-IFCs can recognise full credit protection for the underlying asset and no capital shall be required to be maintained thereon. The exposure shall stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

Chapter – VIII

Specific directions applicable to Non-Banking Financial Company – Micro Finance Institutions (NBFC-MFIs) and Microfinance Loans of applicable NBFCs including NBFC-MFIs

49. Entry Point Norms

All new companies desiring registration as NBFC-MFIs shall need a minimum NOF of ₹5 crore (except those in the North Eastern Region of the country which shall require NOF of ₹2 crore till further notice, as hitherto) and shall comply, from the beginning, with all other criteria applicable to NBFC-MFIs.

50. Prudential Norms

(i) Capital Adequacy

NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. The total of Tier II Capital at any point of time, shall not exceed 100 percent of Tier I Capital. Note:

Explanations:

I. On balance sheet assets–

(1) In these Directions, degrees of credit risk expressed as percentage weightages have been assigned to balance sheet assets. Hence, the value of each asset / item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value

of assets. The aggregate shall be taken into account for reckoning the minimum capital ratio. The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Weighted risk assets - On-Balance Sheet items	**Percentage weight**
(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) Investments	
(a) Approved securities [Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) Fixed deposits/certificates of deposits/bonds of public financial institutions	100
(d) Shares of all companies and debentures/ bonds/commercial papers of all companies and units of all mutual funds	100
(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation.	50
(iii) Current assets	
(a) Stock on hire (net book value)	100
(b) Intercorporate loans/deposits	100
(c) Loans and advances fully secured against deposits held	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good[Except at (vi) below]	100
(f) Bills purchased/discounted	100
(g) Others (To be specified)	100

(iv) Fixed Assets (net of depreciation)	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
(v) Other assets	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100
(vi) Domestic Sovereign	
(a) fund based claims on the Central Government	0
(b) Direct loan / credit / overdraft exposure and investment in State Government securities	0
(c) Central Government guaranteed claims	0
(d) State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20
(e) State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

Notes:

1. Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.

2. Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of `zero'.

3. While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, NBFC-MFIs shall net off the amount of cash margin/caution money/security deposits (against which right to set-off is available)

held as collateral against the advances out of the total outstanding exposure of the borrower.

4. For loans guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC, NBFC-MFIs shall assign risk weight as per the instructions specified in Note 4 of 'Explanations I' of paragraph 48 of Chapter VII of these Directions.

II. Off-balance sheet items

(1) General

NBFC-MFI shall calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure shall be calculated by means of a two-step process:

(i) the notional amount of the transaction shall be converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and

(ii) the resulting credit equivalent amount shall be multiplied by the risk weight applicable viz. zero percent for exposure to Central Government/State Governments, 20 per cent for exposure to banks and 100 percent for others.

(2) Non-market-related off- balance sheet items

(i) The credit equivalent amount in relation to a non-market related off-balance sheet item shall be determined by multiplying the contracted amount of that particular transaction by the relevant credit conversion factor (CCF).

Sr. No.	Instruments	Credit Conversion Factor
i.	Financial & other guarantees	100
ii.	Share/debenture underwriting obligations	50
iii.	Partly-paid shares/debentures	100
iv.	Bills discounted/rediscounted	100
v.	Lease contracts entered into but yet to be executed	100
vi.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC-MFI.	100
vii.	Forward asset purchases, forward	100

	deposits and partly paid shares and securities, which represent commitments with certain draw down.	
viii.	Lending of NBFC securities or posting of securities as collateral by the NBFC-MFI, including instances where these arise out of repo style transactions	100
ix.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of up to one year over one year	 20 50
x.	Similar commitments that are unconditionally cancellable at any time by the NBFC-MFI without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower’s credit worthiness	0
xi.	Take-out Finance in the books of taking-over institution	
	(i) Unconditional take-out finance	100
	(ii) Conditional take-out finance	50 Note: As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.
xii.	Commitment to provide liquidity facility for securitization of standard asset transactions	100
xiii.	Second loss credit enhancement for securitization of standard asset	100

	transactions provided by third party	
xiv.	Other contingent liabilities (To be specified)	50

Note:

1. Cash margins/ deposits shall be deducted before applying the conversion factor

2. Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of NBFC-MFI's on-balance sheet credit exposure.

For example:

A term loan of ₹700 crore is sanctioned for a large project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – ₹150 crore in Stage I, ₹200 crore in Stage II and ₹350 crore in Stage III, where the borrower needs the NBFC's explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already ₹50 crore under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be ₹100 crore. If Stage I is scheduled to be completed within one year, the CCF will be 20 per cent and if it is more than one year then the applicable CCF will be 50 per cent.

(3) Market Related Off-Balance Sheet Items

(i) NBFC-MFIs shall take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo / reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures.

(ii) The credit risk on market related off-balance sheet items is the cost to an NBFC-MFI of replacing the cash flow specified by the contract in the event of counterparty default. This would depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.

(iii) Market related off-balance sheet items shall include:

(a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

(b) foreign exchange contracts, including contracts involving gold,- includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;

(c) Credit Default Swaps; and

(d) any other market related contracts specifically allowed by the Bank which give rise to credit risk.

(iv) Exemption from capital requirements is permitted for -

(a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and

(b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.

(v) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them shall be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.

(vi) A CCF of 100 per cent shall be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure shall be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent and for other CCPs, risk weight shall be 50 percent.

(vii) The total credit exposure to a counter party in respect of derivative transactions shall be calculated according to the current exposure method as explained below.

(4) Current Exposure Method

The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of (i) current credit exposure and (ii) potential future credit exposure of the contract.

(i) Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty shall not be netted). The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market.

(ii) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives		
Credit Conversion Factors (per cent)		
	Interest Rate Contracts	**Exchange Rate Contracts & Gold**
One year or less	**0.50**	**2.00**
Over one year to five years	**1.00**	**10.00**
Over five years	**3.00**	**15.0**

a. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.

b. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity shall be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.

c. No potential future credit exposure shall be calculated for single currency floating / floating interest rate swaps; the credit exposure on these contracts shall be evaluated solely on the basis of their mark-to-market value.

d. Potential future exposures shall be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the NBFC-MFI would have an effective notional amount of USD 2 million.

(5) Credit conversion factors for Credit Default Swaps (CDS):

NBFC-MFIs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds shall be held in current category or permanent category. The capital charge for these exposures shall be as under:

(i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection shall be permitted to be recognised to a maximum of 80 per cent of the exposure hedged. Therefore, the NBFC-MFI shall continue to maintain capital charge for the corporate bond to the extent of 20 per cent of the applicable capital charge. This can be achieved by taking the exposure value at 20 per cent of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position shall attract a capital charge for counterparty risk which shall be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFC-MFIs can recognise full credit protection for the underlying asset and no capital shall be required to be maintained thereon. The exposure shall stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) Asset classification and provisioning norms

All NBFC-MFIs shall adopt the following norms:

(a) Asset Classification Norms:

i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of more than 90 days.

(b) Provisioning Norms:

i. For non-performing assets related to microfinance loans of NBFC-MFIs, provisioning norms shall be as below:

The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of (a) 1 per cent of the outstanding loan portfolio or (b) 50 per cent of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100 per cent of the aggregate loan instalments which are overdue for 180 days or more.

ii. If the advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion shall be provided for as per provisioning norms as mentioned in paragraph 13 of these Directions.

(iii) All other provisions contained in Chapter IV of these Directions, where not contradictory to the contents of this paragraph, shall be applicable to NBFC-MFIs.

(iv) An NBFC, which does not qualify as an NBFC-MFI shall extend microfinance loans, which in aggregate does not exceed 25 per cent of its total assets.

51. Deleted[13]

52. Deleted[14]

53. Deleted

54. Deleted[15]

[13] In view of instructions contained in Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022

[14] In view of instructions contained in Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022

55. Channelizing Agents for Schemes operated by Central/State Government Agencies

(i) NBFC-MFIs acting as Channelizing Agents for Schemes operated by Central/State Government Agencies shall abide by the following guidelines:

(a) loans disbursed or managed by NBFC-MFIs in their capacity as channelizing agents for Central/ State Government Agencies shall be considered as a separate business segment. These loans shall not be included either in the numerator (microfinance loans) or the denominator (total assets) for the purpose of determining compliance with the minimum threshold of microfinance loans.

(ii) The NBFC-MFIs may act as channelising agents for distribution of loans under special schemes of Central/State Government Agencies subject to following conditions:

(a) accounts and records for such loans as well as funds received/ receivable from concerned agencies shall be maintained in the books of NBFC-MFI distinct from other assets and liabilities, and depicted in the financials/ final accounts/balance sheet with requisite details and disclosures as a separate segment;

(b) such loans shall be subject to applicable asset classification, income recognition and provisioning norms as well as other prudential norms as applicable to NBFC-MFIs except in cases where the NBFC-MFI does not bear any credit risk;

(c) all such loans shall be reported to credit information companies (CICs) to prevent multiple borrowings and present complete picture of indebtedness of a borrower.

56. Deleted

57. Geographical Diversification

NBFC-MFIs shall approach their Boards for fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations.

[15] In view of instructions contained in Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022

58. Formation of SRO

All NBFC-MFIs shall become member of at least one Self-Regulatory Organization (SRO) which is recognized by the Bank and shall also comply with the Code of Conduct prescribed by the SRO. Further, the SRO holding recognition from the Bank shall have to adhere to a set of functions and responsibilities as mentioned in **Annex X**. The same may be modified by the Bank from time to time to improve the efficiency of the sector.

59. Monitoring of Compliance

The responsibility for compliance to all regulations prescribed for NBFC- MFIs lies primarily with the NBFC-MFIs themselves. The industry associations/SROs shall also play a key role in ensuring compliance with the regulatory framework. In addition, banks' lending to NBFC-MFIs shall also ensure that systems, practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

60. Deleted[16]

60A. Directions for Microfinance Loans

Applicable NBFCs shall be guided by the Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, as amended from time to time.

Section III: Governance Issues

Chapter - IX
Acquisition / Transfer of Control of Applicable NBFCs

61. An applicable NBFC, shall require prior written permission of the Bank for the following:

a) any takeover or acquisition of control of the applicable NBFC, which may or may not result in change of management;

b) any change in the shareholding of the applicable NBFCs, including progressive increases over time, which would result in acquisition / transfer of shareholding of 26 per cent or more of the paid-up equity capital of the applicable NBFC.

[16] In view of instructions contained in Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022

Provided that, prior approval would not be required in case of any shareholding going beyond 26 per cent due to buyback of shares/ reduction in capital where it has approval of a competent Court. The same is to be reported to the Bank not later than one month from its occurrence;

c) any change in the management of the applicable NBFC which would result in change in more than 30 per cent of the directors, excluding independent directors.

Provided that, prior approval would not be required in case of directors who get re-elected on retirement by rotation.

62. Notwithstanding paragraph 61, applicable NBFCs shall continue to inform the Bank regarding any change in their directors / management.

63. Application for prior approval

(1) Applicable NBFCs shall submit an application, in the company letter head, for obtaining prior approval of the Bank, along with the following documents:

(a) Information about the proposed directors / shareholders as per the **Annex XI**;

(b) Sources of funds of the proposed shareholders acquiring the shares in the applicable NBFC;

(c) Declaration by the proposed directors/ shareholders that they are not associated with any unincorporated body that is accepting deposits;

(d) Declaration by the proposed directors/ shareholders that they are not associated with any company, the application for CoR of which has been rejected by the Bank;

(e) Declaration by the proposed directors/ shareholders that there is no criminal case, including for offence under section 138 of the Negotiable Instruments Act, against them; and

(f) Bankers' Report on the proposed directors/ shareholders.

(2) Applications in this regard shall be submitted to the Regional Office of the Department of Supervision of the Bank in whose jurisdiction the Registered Office of the applicable NBFC is located.

64. Requirement of Prior Public Notice about change in control/ management

(1) A public notice of at least 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or

without sale of shares. Such public notice shall be given by the applicable NBFC and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the Bank.

(2) The public notice shall indicate the intention to sell or transfer ownership/ control, the particulars of transferee and the reasons for such sale or transfer of ownership/ control. The notice shall be published in at least one leading national and in one leading local (covering the place of registered office) vernacular newspaper.

64A. Investment in applicable NBFCs from FATF non-compliant jurisdictions: NBFCs shall ensure compliance to the instructions as specified in paragraph 5A of these directions.

Section IV: Miscellaneous Issues

Chapter - X

Opening of Branch/ Subsidiary/ Joint Venture/ Representative Office or Undertaking Investment Abroad by NBFCs

The Directions contained in this chapter are in addition to those prescribed by Foreign Exchange Department for overseas investment.

65. Prior approval of the Bank shall be obtained in cases of opening of branch/ subsidiary/ joint venture/ representative office or undertaking investment abroad by applicable NBFCs No applicable NBFC shall open subsidiaries/ joint ventures/ representative office abroad or shall make investment in any foreign entities without obtaining prior approval in writing from the Bank. The application from the applicable NBFC seeking No Objection would be considered subject to general and specific conditions prescribed in these directions.

66. General conditions

(i) Investment in non-financial service sectors shall not be permitted;

(ii) Direct investment in activities prohibited under FEMA or in sectoral funds shall not be permitted;

(iii) Investments shall be permitted only in those entities having their core activity regulated by a financial sector regulator in the host jurisdiction;

(iv) The aggregate overseas investment shall not exceed 100 per cent of the NOF. The overseas investment in a single entity, including its step down subsidiaries, by way of equity or fund based commitment shall not be more than 15 per cent of the applicable NBFC's owned funds;

(v) Overseas investment shall not involve multi layered, cross jurisdictional structures and at most only a single intermediate holding entity shall be permitted;

(vi) The CRAR/ Leverage of the applicable NBFCs post investment in subsidiary abroad shall be not less than the regulatory prescriptions;

(vii) The applicable NBFC shall continue to maintain required level of NOF after accounting for investment in the proposed subsidiary/investment abroad as prescribed in the explanation to section 45-IA of the RBI Act;

(viii) The level of Net Non-Performing Assets of the applicable NBFC shall not be more than 5 per cent of the net advances;

(ix) The applicable NBFC shall be earning profit for the last three years and its performance in general shall be satisfactory during the period of its existence;

(x) The applicable NBFC shall comply with the regulations issued under FEMA, 1999 from time to time;

(xi) Regulatory compliance and servicing of public deposits, if held by the applicable NBFC, shall be satisfactory;

(xii) The applicable NBFC shall comply with the KYC norms;

(xiii) SPVs set up abroad or acquisition abroad shall be treated as investment or subsidiary/ joint venture abroad, depending upon percentage of investment in overseas entity;

(xiv) An annual certificate from statutory auditors shall be submitted by the applicable NBFC to the Regional Office of Department of Supervision of the Bank where it is registered, certifying that it has fully complied with all the conditions stipulated under these directions for overseas investment;

(xv) If any adverse features come to the notice of the Bank, the permission granted shall be withdrawn. All approvals for investment abroad shall be subject to this condition.

67. Specific conditions

(1) Opening of Branch

As a general policy, applicable NBFCs shall not be allowed to open a branch abroad. However, applicable NBFCs which have already set up branch(es) abroad for undertaking financial business shall be allowed to continue to operate them subject to complying with the revised directions, as applicable.

(2) Opening of subsidiary abroad by applicable NBFCs

In case of opening of a subsidiary abroad by the applicable NBFC, all the conditions as stipulated above shall be applicable. The NoC to be issued by the Bank is independent of the overseas regulators' approval process. In addition, the following stipulations are made, which shall be applicable to all applicable NBFCs:

(a) In case of opening of subsidiary abroad, the parent applicable NBFC shall not be permitted to extend implicit or explicit guarantee to or on behalf of such subsidiaries;

(b) No request for letter of comfort in favour of the subsidiary abroad from any institution in India shall be permitted;

(c) It shall be ensured that applicable NBFCs liability in the proposed overseas entity is restricted to its either equity or fund based commitment to the subsidiary;

(d) The subsidiary being established abroad shall not be a shell company i.e "a company that is incorporated, but has no significant assets or operations." However, companies undertaking activities such as financial consultancy and advisory services with no significant assets shall not be considered as shell companies;

(e) The subsidiary being established abroad by the applicable NBFC shall not be used as a vehicle for raising resources for creating assets in India for the Indian operations;

(f) In order to ensure compliance of the provisions, the parent applicable NBFC shall obtain periodical reports/ audit reports about the business undertaken by the subsidiary abroad and shall make them available to the Bank and inspecting officials of the Bank;

(g) If the subsidiary has not undertaken any activity or such reports are not forthcoming, the approvals given for setting up a subsidiary abroad shall be reviewed/ recalled;

(h) The permission granted to any applicable NBFC for setting up of overseas subsidiary shall be subject to condition that the subsidiary shall make disclosure in its Balance Sheet to the effect that liability of the parent entity in the proposed overseas entity shall be limited to its either equity or fund based commitment to the subsidiary;

(i) All the operations of the subsidiary abroad shall be subject to regulatory prescriptions of the host country.

(3) Joint Ventures abroad

Investments abroad, other than in subsidiaries shall also be governed by same guidelines as those applicable to subsidiaries.

(4) Opening of representative offices abroad

(i) The representative office can be set up abroad for the purpose of liaison work, undertaking market study and research but not undertaking any activity which involves outlay of funds, provided it is subject to regulation by a regulator in the host country. As it is not envisaged that such office would be carrying on any activity other than liaison work, no line of credit shall be extended.

(ii) The parent NBFC shall obtain periodical reports about the business undertaken by the representative office abroad. If the representative office has not undertaken any activity or such reports are not forthcoming, the approvals given for the purpose shall be reviewed/ recalled.

Chapter - XI
Miscellaneous Instructions

68. Expansion of activities of applicable NBFC through automatic route

Applicable NBFC with Foreign Direct Investment (FDI) under the automatic route shall be permitted to undertake only those activities which are permissible under the automatic route. Diversification into any other activity shall require the prior approval of FIPB. 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.

69. Ratings of applicable NBFCs

All applicable NBFCs with asset size of ₹100 crore and above shall furnish information about downgrading/ upgrading of assigned rating of any financial product issued by them, within fifteen days of such a change in rating, to the Regional Office of the Bank under whose jurisdiction their registered office is functioning.

70. Applicability of Know Your Customer (KYC) Direction, 2016

All applicable NBFCs having customer interface shall follow the Know Your Customer (KYC) Direction, 2016, issued by the Department of Regulation as amended from time to time.

71. Non- Reckoning of Fixed Deposits with banks as Financial Assets

Investments in fixed deposits shall not be treated as financial assets and receipt of interest income on fixed deposits with banks shall not be treated as income from financial assets as these are not covered under the activities mentioned in the definition of "financial Institution" in section 45-I(c) of the RBI Act. Besides, bank deposits constitute near money and can be used only for temporary parking of idle funds, and/or in cases where the funds are parked in fixed deposits initially to fulfil the requirement of registration as NBFC i.e., NOF of ₹200 lakh, till commencement of NBFI business.

72. Operative instructions relating to relaxation/ modification in Ready Forward Contracts, Settlement of Government Securities Transactions and Sale of securities allotted in Primary Issues

All applicable NBFCs shall follow the guidelines on transactions in Government Securities as given in the circular IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004 and IDMD.PDRS.4777, & 4783/10.02.01/2004-05, both dated May 11, 2005 and Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018, dated July 24, 2018, as amended from time to time.

73. Reporting Platform for Corporate Bond Transactions

With effect from April 01, 2014, all applicable NBFCs should report their secondary market OTC trades in corporate bonds within 15 minutes of the trade on any of the stock exchanges (NSE, BSE and MCX-SX). The provisions of the circular dated IDMD.PCD.10/14.03.06/2013-14 dated February 24, 2014, as amended from time to time, shall be adhered to.

74. Unsolicited Commercial Communications - National Do Not Call Registry

(1) Applicable NBFCs shall

(i) Not engage Telemarketers (DSAs/ DMAs) who do not have any valid registration certificate from DoT, Govt. of India, as telemarketers; applicable NBFCs shall engage only those telemarketers who are registered in terms of the guidelines issued by TRAI, from time to time, for all their promotional/ telemarketing activities.

(ii) Furnish the list of Telemarketers (DSAs/ DMAs) engaged by them along with the registered telephone numbers being used by them for making telemarketing calls to TRAI; and

(iii) Ensure that all agents presently engaged by them register themselves with DoT as telemarketers.

75. Investment through Alternative Investment Funds - Calculation of NOF of an applicable NBFC

While arriving at the NOF figure, investment made by an applicable NBFC in entities of the same group concerns shall be treated alike, whether the investment is made directly or through an Alternative Investment Fund (AIF)/ Venture Capital Fund (VCF), and when the funds in the VCF have come from the applicable NBFC to the extent of 50per cent or more; or where the beneficial owner, in the case of Trusts is the applicable NBFC, if 50 per cent of the funds in the Trusts are from the concerned applicable NBFC. For this purpose, "beneficial ownership" shall mean holding the power to make or influence decisions in the Trust and being the recipient of benefits arising out of the activities of the Trust. In arriving at the NOF, the substance would take precedence over form.

76. Treatment of deferred tax assets (DTA) and deferred tax liabilities (DTL) for computation of capital

(1) As creation of DTA or DTL give rise to certain issues impacting the balance sheet of the company, the regulatory treatment to be given to these issues shall be as under:

(i) The balance in DTL account shall 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.

(ii) DTA shall be treated as an intangible asset and shall be deducted from Tier I Capital.

(2) In this connection

(i) DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year shall be included under 'others' of "Other Liabilities and Provisions."

(ii) DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year shall be included under item 'others' of "Other Assets."

(iii) Intangible assets and losses in the current period and those brought forward from previous periods shall be deducted from Tier I capital.

(3) DTA computed as under shall be deducted from Tier I capital:

(i) DTA associated with accumulated losses; and

(ii) The DTA (excluding DTA associated with accumulated losses) net of DTL. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to Tier I capital.

77. Introduction of Interest Rate Futures

(1) Applicable NBFCs can participate in the designated interest rate futures (IRF) exchanges recognized by SEBI, as clients, subject to adherence to instructions contained in Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 dated June 26, 2019, as amended from time to time, for the purpose of hedging their underlying exposures. Applicable NBFCs participating in IRF exchanges shall submit the data in this regard half yearly, in the prescribed format, to the Regional Office of the Department of Supervision of the Bank in whose jurisdiction their company is registered, within a period of one month from the close of the half year.

78. Finance for Housing Projects - Incorporating clause in the terms and conditions to disclose in pamphlets/ brochures/ advertisements, information regarding mortgage of property to the applicable NBFC

While granting finance to housing/ development projects, applicable NBFC shall also stipulate as a part of the terms and conditions that:

(i) the builder/ developer/ owner/ company shall disclose in the Pamphlets/ Brochures/ advertisements etc., the name(s) of the entity to which the property is mortgaged.

(ii) the builder/ developer/ owner/ company shall indicate in the pamphlets/ brochures, that they would provide No Objection Certificate (NOC)/ permission of the mortgagee entity for sale of flats/ property, if required.

Applicable NBFCs shall ensure compliance with the above stipulations and funds shall not be released unless the builder/ developer/ owner/ company fulfil the above requirements.

79. Loan facilities to the physically/ visually challenged by applicable NBFCs

Applicable NBFCs shall not discriminate in extending products and facilities including loan facilities to physically/ visually challenged applicants on grounds of disability. All branches of applicable NBFCs shall render all possible assistance to such persons for availing of the various business facilities. Applicable NBFCs shall include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels. Further, applicable NBFCs shall ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up by them.

80. Participation in Currency Futures

Applicable NBFCs shall participate in the designated currency futures exchanges recognized by SEBI as clients, subject to Bank’s (Foreign Exchange Department) guidelines in the matter, only for the purpose of hedging their underlying forex exposures. Disclosures shall be made in the balance sheet relating to transactions undertaken in the currency futures market, in accordance with the guidelines issued by SEBI.

81. Entry into insurance business

(1) For entry into insurance business applicable NBFCs shall make an application along with necessary particulars duly certified by their statutory auditors to the Regional Office of Department of Supervision of the Bank in whose jurisdiction the registered office of the applicable NBFCs is situated.

(2) Applicable NBFCs shall take up insurance agency business on fee basis and without risk participation, without the approval of the Bank subject to the certain eligibility conditions.

(3) The Detailed Guidelines are as provided for in **Annex XII**.

82. Issue of Credit Card

Applicable NBFCs registered with the Bank shall not undertake credit card business without prior approval of the Bank. Any company including a non-deposit taking company intending to engage in this activity requires a CoR, apart from specific permission to enter into this business, the pre-requisite for which is a minimum net owned fund of ₹100 crore and subject to such terms and conditions as the Bank may specify in this behalf from time to time. Applicable NBFCs shall not issue debit cards, smart cards, stored value cards, charge cards, etc. Applicable NBFCs shall comply with the instructions issued by Bank to commercial banks vide DBOD.FSD.BC.49/ 24.01.011/ 2005-06 dated November 21, 2005 and as amended from time to time.

83. Issue of Co-branded Credit Cards

Applicable NBFCs registered with the Bank are allowed selectively to issue co-branded credit cards with scheduled commercial banks, without risk sharing, with prior approval of the Bank, for an initial period of two years and a review thereafter. Applicable NBFCs fulfilling the minimum eligibility requirements and adhering to certain stipulations are eligible to apply. The eligibility requirements are as stipulated in **Annex XIII**.

84. Distribution of Mutual Fund (MF) products

Applicable NBFCs registered with the Bank shall distribute mutual fund products subject to compliance with the SEBI guidelines/ regulations, including its code of conduct, for distribution of mutual fund products. The detailed guidelines are as provided in **Annex XIV**.

85. Applicable NBFCs not to be partners in partnership firms

(1) No applicable NBFC shall contribute to the capital of a partnership firm or become a partner of such firm.

(2) In this connection;

a) Partnership firms shall also include Limited Liability Partnerships (LLPs).

b) The aforesaid prohibition shall also be applicable in respect of Association of persons, these being similar in nature to partnership firms

Applicable NBFCs which had already contributed to the capital of a partnership firm/ LLP/ Association of persons or are a partner of a partnership firm/ LLP or member of an Association of persons shall seek early retirement from the partnership firm/ LLP/ Association of persons.

86. Submission of data to Credit Information Companies (CICs) - Format of data to be submitted by Credit Institutions

(1) All applicable NBFCs (other than those which are purely into investment activities without any customer interface) shall become member of **all CICs** and submit data (including historical data) to them.

(2) In terms of sub-sections (1) and (2) of section 17 of the Credit Information Companies (Regulation) Act, 2005, a credit information company may require its members to furnish credit information as it may deem necessary in accordance with the provisions of the Credit Information Companies (Regulation) Act, 2005 and every such credit institution has to provide the required information to that credit information company. In terms of Regulation 10(a)(ii) of the Credit Information Companies Regulations, 2006, every credit institution shall:

(a) keep the credit information maintained by it, updated regularly on a monthly basis or at such shorter intervals as mutually agreed upon between the credit institution and the credit information company; and

(b) take all such steps which may be necessary to ensure that the credit information furnished by it, is update, accurate and complete.

87. Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures

All applicable NBFCs shall comply with the instructions contained in the Bank's circular DBOD.No.CID.BC.127/20.16.056/2013-14 dated June 27, 2014, amended from time to time; laying down instructions regarding the following:

(i) Creating Awareness about Credit Information Report (CIR);

(ii) Usage of CIR in all Lending Decisions and Account Opening;

(iii) Populating Commercial Data Records in Databases of all CICs;

(iv) Standardisation of Data Format;

(v) Constitution of a Technical Working Group;

(vi) Process of Rectification of Rejected Data;

(vii) Determining Data Quality Index;

(viii) Calibration of Credit Score and Standardising Format of CIR;

(ix) Best practices for Banks/FIs.

(2) Applicable NBFCs shall comply with the provisions contained in the circular DoR.FIN.REC.59/20.16.056/2021-22 dated October 14, 2021 on 'Data Format for Furnishing of Credit Information to Credit Information Companies'.

Applicable NBFCs shall comply with the directive issued under CICRA Sec 11(1) by the Bank vide DBR.No.CID.BC.59/20.16.056/2014-15 dated January 15, 2015.

88. Implementation of Green Initiative of the Government

All Applicable NBFCs shall take proactive steps for increasing the use of electronic payment systems, elimination of post-dated cheques and gradual phase-out of cheques in their day-to-day business transactions which would result in more cost-effective transactions and faster and accurate settlements.

89. Attempt to defraud using fake bank guarantee- Modus Operandi

Instances of fraud have been brought to the notice of the RBI wherein Bank Guarantees (BGs) purportedly issued by a couple of bank branches in favour of different entities were presented for confirmation by other commercial banks/ individuals representing some beneficiary firms. The BGs were submitted along with Confirmation Advice/ Advice of Acceptance. One of the beneficiaries was the reporting banks customer. The remaining beneficiaries and applicants were neither the customers of the bank nor were they known to the bank branch officials.

A scrutiny of the said BG revealed that these bank guarantees were fake and the signatures of the bank officials appearing on the BG were forged. The bank branches purported to have issued the BGs also confirmed that they had not issued the same. Even the format of the BGs and their serial numbers did not match with that of the bank.

Applicable NBFCs shall take notice of the above facts in order to exercise due caution while handling such cases.

90. Credit Default Swaps (CDS) – Applicable NBFCs as Users

(1) Applicable NBFCs shall only participate in CDS market as users. As users, they shall buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not sell protection and hence shall not enter into short positions in

the CDS contracts. They shall exit their bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond.

(2) Apart from complying with all the provisions above, applicable NBFCs shall, as users, also ensure that the guidelines enclosed including operational requirements for CDS as provided in **Annex XV**, are fulfilled by them.

91. Securitisation of Standard Assets and Transfer of Loan Exposures

Applicable NBFCs shall ensure compliance with the instructions contained in Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 and Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021, both dated September 24, 2021 on matters related to securitisation of standard assets and transfer of loan exposures.

92.

92A. Legal Entity Identifier for Borrowers[17]

(1) The Legal Entity Identifier (LEI) code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide. Accordingly, it is advised that non-individual borrowers enjoying aggregate exposure of ₹5 crore and above from banks[18] and financial institutions (FIs)[19] shall be required to obtain LEI codes as per the timeline given below

Total Exposure	LEI to be obtained on or before
Above ₹25 crore	April 30, 2023
Above ₹10 crore, and up to ₹25 crore	April 30, 2024
₹5 crore and above, and up to ₹10 crore	April 30, 2025

Note: "Exposure" for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks/FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders may ascertain the position of aggregate exposure based on

[17] Vide circular DOR.CRE.REC.28/21.04.048/2022-23 dated April 21, 2022.

[18] "Banks" shall mean Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks and Primary (Urban) Co-operative Banks

[19] "Financial Institutions" (FIs) shall mean All India Financial Institutions (Exim Bank, SIDBI, NHB, NABARD and NaBFID) and NBFCs (including HFCs).

information available either with them, or CRILC database or declaration obtained from the borrower.

(2) Borrowers can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the LOU in India for issuance and management of LEI. The rules, procedure and documentation requirements may be ascertained from LEIIL. After obtaining LEI code, applicable NBFCs shall also ensure that borrowers renew the codes as per GLEIF guidelines.

(3) Borrowers who fail to obtain LEI codes from an authorised LOU shall not be sanctioned any new exposure nor shall they be granted renewal/enhancement of any existing exposure. However, Departments/Agencies[20] of Central and State Governments (not Public Sector Undertakings registered under Companies Act or established as Corporation under the relevant statute) shall be exempted from this provision.

(4) Applicable NBFCs shall encourage borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

93. Raising Money through Private Placement by applicable NBFCs-Debentures etc.

Applicable NBFCs shall follow the guidelines on private placement of Non-Convertible Debentures (NCDs) given in **Annex XVII**. The provisions of Companies Act, 2013 and Rules framed thereunder shall be applicable wherever not contradictory.

94. Filing of records of mortgages with the Central Registry

Applicable NBFCs shall file and register the records of equitable mortgages created in their favour on or after March 31, 2011 with the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) and shall also register

[20] A government agency is an administrative set up of the government, responsible for certain area/s of activity, e.g., ISRO, BIS, DGCA, etc.

the records with the Central Registry as and when equitable mortgages are created in their favour. Applicable NBFCs shall register all types of mortgages with CERSAI.

95. Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy

Framework for Revitalizing Distressed Assets in the Economy (Framework) as provided for in **Annex XVIII** shall apply to all NBFC-Factors. The Department of Regulation, of the Bank has made certain modifications to the Framework vide circulars dated October 21, 2014, December 22, 2014, June 8, 2015, September 24, 2015 and February 25, 2016.The modifications in the Framework made vide the above mentioned circulars shall also apply, mutatis mutandis, to applicable NBFCs.

95A. Framework for Compromise Settlements and Technical Write-offs[21]

NBFCs shall comply with the instructions contained in circular on 'Framework for Compromise Settlements and Technical Write-offs' dated June 08, 2023, as amended from time to time.

96. Rounding off transactions to the Nearest Rupee by applicable NBFCs

All transactions of applicable NBFCs, including payment of interest on deposits/ charging of interest on advances, shall be rounded off to the nearest rupee, i.e. fractions of 50 paise and above shall be rounded off to the next higher rupee and fractions of less than 50 paise shall be ignored. It shall be ensured that cheques/ drafts issued by clients containing fractions of a rupee shall not be rejected by them.

97. Appointment of Non-Deposit Accepting applicable NBFCs as sub- agents under Money Transfer Service Schemes (MTSS)

Applicable NBFCs may act as sub-agents under MTSS without any prior approval of the Bank.

98. Provision of Safe Deposit Locker Facility by applicable NBFCs

Providing safe deposit locker facility is a fee-based service and shall not be reckoned as part of the financial business carried out by applicable NBFCs. Applicable NBFCs offering safe deposit locker facility or intending to offer it, shall disclose to their customers that the activity is not regulated by the Bank.

[21] Inserted vide circular DOR.STR.REC.20/21.04.048/2023-24 dated June 08, 2023

99. Undertaking of Point of Presence (PoP) Services under Pension Fund Regulatory and Development Authority for National Pension System (NPS)

Applicable NBFCs shall not undertake Point of Presence (PoP) services for National Pension System (NPS) under Pension Fund Regulatory and Development Authority.

100. Criteria for deciding NBFC-ND-SI status

(1) Once an NBFC reaches an asset size of ₹500 crore or above, it shall be subject to the regulatory requirements as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, despite not having such assets as on the date of last balance sheet. All such non-deposit taking NBFCs shall comply with the regulations/directions issued to NBFC-ND-SI from time to time, as and when they attain an asset size of ₹500 crore, irrespective of the date on which such size is attained.

(2) In a dynamic environment, the asset size of a company can fall below ₹ 500 crore in a given month, which may be due to temporary fluctuations and not due to actual downsizing. In such a case the company shall continue to meet the reporting requirements and shall comply with the extant directions as applicable to NBFC-ND-SI, till the submission of its next audited balance sheet to the Bank and a specific dispensation from the Bank in this regard.

101. Need for public notice before Closure of the Branch/ Office by applicable NBFC

Applicable NBFCs shall give at least three months public notice prior to the date of closure of any of its branches / offices in, at least, one leading national newspaper and a leading local (covering the place of branch / office) vernacular newspaper indicating therein the purpose and arrangements being made to service the depositors etc.

102. Migration of Post-dated cheques (PDC)/ Equated Monthly Instalment (EMI) Cheques to Electronic Clearing Service (Debit)

Considering the protection available under section 25 of the Payment and Settlement Systems Act, 2007 which accords the same rights and remedies to the payee (beneficiary) against dishonour of electronic funds transfer instructions on grounds of insufficiency of funds as are available under section 138 of the Negotiable Instruments Act, 1881, there shall be no need for applicable NBFCs to take additional cheques, if any, from customers in addition to ECS (Debit) mandates. Cheques complying with CTS-2010 standard formats shall alone be obtained in locations, where the facility of ECS/ RECS is not available.

103. Refinancing of Project Loans

(1) Applicable NBFCs are allowed to refinance any existing infrastructure and other project loans by way of take-out financing, without a pre-determined agreement with other lenders, and fix a longer repayment period, the same shall not be considered as restructuring if the following conditions are satisfied:

i. Such loans shall be 'standard' in the books of the existing lenders, and shall have not been restructured in the past;

ii. Such loans shall be substantially taken over (more than 50 per cent of the outstanding loan by value) from the existing financing lenders; and

iii. The repayment period shall be fixed by taking into account the life cycle of the project and cash flows from the project.

(2) For existing project loans where the aggregate exposure of all institutional lenders is minimum ₹1,000 crore, applicable NBFCs may refinance such loans by way of full or partial take-out financing, even without a pre-determined agreement with other lenders, and fix a longer repayment period, and the same shall not be considered as restructuring in the books of the existing as well as taking over lenders, if the following conditions are satisfied:

i. The project shall have started commercial operation after achieving Date of Commencement of Commercial Operation (DCCO);

ii. The repayment period shall be fixed by taking into account the life cycle of and cash flows from the project, and Boards of the existing and new lenders shall be satisfied with the viability of the project. Further, the total repayment period shall not exceed 85 per cent of the initial economic life of the project / concession period in the case of PPP projects;

iii. Such loans shall be 'standard' in the books of the existing lenders at the time of the refinancing;

iv. In case of partial take-out, a significant amount of the loan (a minimum 25% of the outstanding loan by value) shall be taken over by a new set of lenders from the existing financing lenders; and

v. The promoters shall bring in additional equity, if required, so as to reduce the debt to make the current debt-equity ratio and Debt Service Coverage Ratio (DSCR) of the project loan acceptable to the applicable NBFCs.

(3) A lender who has extended only working capital finance for a project shall be treated as 'new lender' for taking over a part of the project term loan as required under the guidelines.

(4) The above facility shall be available only once during the life of the existing project loans.

104. Guidelines for Relief Measures by NBFCs in areas affected by Natural Calamities

The Bank has issued guidelines to banks in regard to matters relating to relief measures to be provided in areas affected by natural calamities vide Master Direction – Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – SCBs dated October 17, 2018. These guidelines shall be mutatis mutandis, applicable, to NBFCs, in areas affected by natural calamities as identified for implementation of suitable relief measures by the institutional framework viz., District Consultative Committee/ State Level Bankers' Committee.

105. Disbursal of loan amount in cash

Every NBFC shall ensure compliance with the requirements under sections 269SS and 269T of the Income Tax Act, 1961, as amended from time to time.

106. Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs

NBFCs shall conduct a self-assessment of their existing outsourcing arrangements and bring these in line with the directions as provided at **Annex XIX**.

106A. Guidelines on Digital Lending

NBFCs shall also comply with the instructions contained in circular on 'Guidelines on Digital Lending' dated September 02, 2022[22], as amended from time to time.

106B. Loans Sourced by NBFCs over Digital Lending Platforms: Adherence to Fair Practices Code and Outsourcing Guidelines

(1) Many digital platforms have emerged in the financial sector claiming to offer hassle free loans to retail individuals, small traders, and other borrowers. NBFCs are also seen to be engaging digital platforms to provide loans to their customers. In addition, some NBFCs have been registered with Reserve Bank as 'digital-only' lending entities while some NBFCs are registered to work both on digital and brick-mortar channels of credit delivery. Thus, NBFCs are observed to lend either directly through their own digital platforms or through a digital lending platform under an outsourcing arrangement. Such digital platforms, on several occasions tend to portray themselves as lenders without disclosing the name of the NBFC at the backend, as a consequence of which, customers are not able to access grievance redressal avenues available under the regulatory framework. Of late, there are several complaints against the lending platforms which primarily relate to exorbitant interest rates, non-transparent methods to calculate interest, harsh recovery measures, unauthorised use of personal data and bad behaviour.

(2) Although digital delivery in credit intermediation is a welcome development, concerns emanate from non-transparency of transactions and violation of extant guidelines on outsourcing of financial services and Fair Practices Code, etc. issued to NBFCs. It is, therefore, reiterated that NBFCs, irrespective of whether they lend through their own digital lending platform or through an outsourced lending platform, must adhere to the Fair Practices Code guidelines in letter and spirit. They must also meticulously follow regulatory instructions on outsourcing of financial services and IT services.

(3) It must be noted that outsourcing of any activity by NBFCs does not diminish their obligations, as the onus of compliance with regulatory instructions rests solely with them. Wherever NBFCs engage digital lending platforms as their agents to source borrowers and/ or to recover dues, they must follow the following instructions:

(a) Names of digital lending platforms engaged as agents shall be disclosed on the website of NBFCs.

[22] Refer to circular DOR.CRE.REC.66/21.07.001/2022-23 dated September 02, 2022

(b) Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the NBFC on whose behalf they are interacting with him.

(c) Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the NBFC concerned.

d) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.

e) Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the NBFCs.

f) Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

(4) Any violation in this regard by NBFCs (including NBFCs registered to operate on 'digital-only' or on digital and brick-mortar channels of delivery of credit) will be viewed seriously.

106C. Guidelines on Default Loss Guarantee (DLG) in Digital Lending[23]

NBFCs shall also comply with the instructions contained in circular on 'Guidelines on Default Loss Guarantee (DLG) in Digital Lending' dated June 08, 2023, as amended from time to time.

107. Technical Specifications for all participants of the Account Aggregator ecosystem

The NBFC-Account Aggregator (AA) consolidates financial information, as defined in para 3(1)ix of Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016, of a customer held with different financial entities, spread across financial sector regulators adopting different IT systems and interfaces. In order to ensure that such movement of data is secured, duly authorised, smooth and seamless, it has been decided to put in place a set of core technical specifications for the participants of the AA ecosystem. Reserve Bank Information Technology Private Limited (ReBIT), has framed these specifications and published the same on its website (www.rebit.org.in).

[23] Inserted vide circular DOR.CRE.REC.21/21.07.001/2023-24 dated June 08, 2023

Applicable NBFCs acting either as Financial Information Providers (FIP)[24] or Financial Information Users (FIU) are expected to adopt the technical specifications published by ReBIT, as updated from time to time.

Chapter - XII
Reporting Requirements

108. The reporting requirements as prescribed by Department of Supervision shall be adhered to by all applicable NBFCs.

Chapter – XIII
Interpretations

109. For the purpose of giving effect to the provisions of these Directions, the Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Bank shall be final and binding on all the parties concerned. Violation of these directions shall invite penal action under the provisions of RBI Act. Further, these provisions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

Chapter - XIV
Repeal Provisions

110. With the issue of the directions, the instructions/ guidelines contained in the following circulars issued by the Bank stand repealed (list as provided below). All approvals/ acknowledgements given under the above circulars shall be deemed as given under these directions. Notwithstanding such repeal, any action taken/ purported to have been taken or initiated under the instructions/ guidelines having repealed shall continue to be guided by the provisions of said instructions/ guidelines.

Sr. No.	Circular No.	Date	Subject
1	Notification No.DNBS.128/CGM(VSNM)-98	December 18, 1998	NBFC Prudential Norms (Reserve Bank) Directions, 1998
2	DNBS.(PD).CC.No. 11 /02.01/99-2000	November 15, 1999	Amendments to NBFC Regulations

[24] The definitions of FIP and FIU are as per the Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016, as amended from time to time.

Sr. No.	Circular No.	Date	Subject
3	Notification No. DNBS.135/CGM(VSNM)-2000	January 13, 2000	NBFC Prudential Norms (Reserve Bank) Directions, 1998
4	Notification DNBS.142/CGM(VSNM)-2000	June 30, 2000	NBFC Prudential Norms (Reserve Bank) Directions, 1998
5	DNBS(PD).CC.No.15/02.01/2000-2001	June 27, 2001	Asset Liability Management (ALM) System for NBFCs - Guidelines
6	DNBS.(PD).CC.No.16/02.01/2000-01	June 27, 2001	Amendments to NBFC Regulations
7	DNBS (PD) C.C. No.35/10.24/2003-04	February 10, 2004	Entry of NBFCs into Insurance Business
8	DNBS (PD) CC No. 38 /02.02/2003-04	June 11, 2004	Transactions in Government Securities
9	DNBS (PD) C.C. No.41/10.27/2004-05	July 7, 2004	Issue of credit card
10	DNBS (PD) CC No.49 /02.02/2004-05	June 9, 2005	Operative instructions relating to relaxation/modification in Ready Forward Contracts, Settlement of Government Securities Transactions and Sale of securities allotted in Primary Issues
11	DNBS.(PD).C.C.No.63/02.02/2005-06	January 24, 2006	Prior Public Notice About Change in Control / Management
12	DNBS (PD) CC No.80/03.10.042/2005-06	September 28, 2006	Guidelines on Fair Practices Code for Non-Banking Financial Companies
13	DNBS (PD) CC No. 82 / 03.02.02 / 2006-07	October 27, 2006	Prior Public Notice about change in control / management
14	DNBS (PD) CC No. 83/03.10.27/2006-07	December 04, 2006	Issue of Co-branded Credit Cards
15	DNBS (PD) CC No. 84/03.10.27/2006-07	December 4, 2006	Distribution of Mutual Fund products by NBFCs
16	DNBS.PD/ CC. No.86/03.02.089/2006-07	December 12, 2006	Financial Regulation of Systemically Important NBFCs and Banks' Relationship with them – for NBFCs'
17	DNBS.PD/ CC. No. 89/03.05.002 /2006-07	February 22, 2007	Prudential Norms Directions – Deposit taking and Non-deposit taking Non-Banking Financial Companies (NBFCs)
18	DNBS.PD/CC.No.95/03.05.002/2006-07	May 24, 2007	Complaints about excessive interest charged by NBFCs
19	DNBS.PD/CC.104/03.10.042/2007-08	July 11, 2007	Guidelines on Corporate Governance
20	DNBS.PD/ C.C. No. 96/ 03.10.001/2007-08	July 31, 2007	NBFCs - FIMMDA Reporting Platform for Corporate Bond Transactions
21	DNBS.PD/CC.No.107/03.10.042/2007-08	October 10, 2007	Guidelines on Fair Practices Code for Non-Banking Financial Companies

Sr. No.	Circular No.	Date	Subject
22	DNBS.PD/ C.C No.109/03.10.001/2007-08	November 26, 2007	Unsolicited Commercial Communications - National Do Not Call Registry
23	DNBS (PD) C.C. No. 124/ 03.05.002/ 2008-09	July 31, 2008	Accounting for taxes on income- Accounting Standard 22- Treatment of deferred tax assets (DTA) and deferred tax liabilities (DTL) for computation of capital
24	DNBS (PD). CC. No.125/03.05.002/2008-2009	August 1, 2008	Guidelines for NBFC-ND-SI as regards capital adequacy, liquidity and disclosure norms
25	DNBS.PD. CC No. 128 / 03.02.059 /2008-09	September 15, 2008	Reclassification of NBFCs
26	DNBS (PD) C.C.No.133/03.10.001/2008-09	January 2, 2009	Regulation of excessive interest charged by NBFCs
27	DNBS (PD) CC. No.134/03.10.001/2008-2009	February 04, 2009	Ratings of NBFCs
28	DNBS (PD) CC.No.139/03.10.001/2008-09	April 24, 2009	Clarification regarding repossession of vehicles financed by NBFCs
29	DNBS (PD) CC. No.141/03.10.001/2008-09	June 4, 2009	Applicability of NBFCs-ND-SI regulations
30	DNBS.PD/ CC.No. 142 / 03.05.002 /2008-09	June 9, 2009	NBFCs - Treatment of Deferred Tax Assets/Deferred Tax Liabilities for Computation of Capital
31	DNBS.PD.CC.No.161/3.10.01/ 2009-10	September 18, 2009	Introduction of Interest Rate Futures- NBFCs
32	DNBS.PD/CC.No.165/03.05.002/2009-10	December 1, 2009	Capital Adequacy - Risk weightage on Lending through Collateralized Borrowing and Lending Obligation (CBLO)
33	DNBS.PD. CC No.168/03.02.089 /2009-10	February 12, 2010	Infrastructure Finance Companies
34	DNBS (PD).CC. No.173/03.10.01 /2009-10	May 03, 2010	Overseas Investment by NBFCs- No Objection (NoC) from DNBS, RBI
35	DNBS (PD) C.C No. 174 /03.10.001/2009-10	May 6, 2010	Finance for Housing Projects – Incorporating clause in the terms and conditions to disclose in pamphlets/brochures/advertisements, information regarding mortgage of property to the NBFC
36	DNBS.CC.PD.No. 191/03.10.01/2010-11	July 27, 2010	Loan facilities to the physically / visually challenged by NBFCs
37	DNBS (PD) CC No. 195 / 03.10.001/ 2010-11	August 9, 2010	Participation in Currency Futures

Sr. No.	Circular No.	Date	Subject
38	DNBS.(PD).CC. No. 200 /03.10.001/2010-11	September 17, 2010	Submission of data to Credit Information Companies Format of data to be submitted by Credit Institutions
39	Notification No. DNBS.(PD).219/CGM(US)-2011	January 5, 2011	Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007
40	DNBS.CC.PD.No.208/03.10.01/2010-11	January 27, 2011	Services to Persons with Disability - Training Programme for Employees
41	DNBS (PD) CC. No.213/03.10.001/2010-2011	March 16, 2011	Amendment to Definition of Infrastructure Loan
42	DNBS.PD/ CC.NO. 214/03.02.002/2010-11	March 30, 2011	NBFCs not to be Partners in Partnership firms
43	DNBS.PD.CC.No.221/03.02.002/2010-11	May 27, 2011	Review of Guidelines on entry of NBFCs into Insurance Business
44	DNBS (PD) CC.No. 222/03.10.001/2010-11	June 14, 2011	Opening of Branch/Subsidiary/Joint Venture/Representative Office or Undertaking Investment Abroad by NBFCs
45	DNBS(PD).CC. No.245 /03.10.42 /2011-12	September 27 , 2011	Attempt to defraud using fake bank guarantee-modus operandi
46	DNBS(PD).CC. No 248/03.10.01 /2011-12	October 28 , 2011	Implementation of Green Initiative of the Government
47	DNBS.CC.PD.No. 250/03.10.01/2011-12	December 02, 2011	Introduction of New Category of NBFCs - 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) - Directions
48	DNBS.CC.PD.No.255/03.10.01/2011-12	December 30, 2011	Issuance of Non-Convertible Debentures (NCDs)
49	DNBS (PD)CC.No.259 /03.02.59/2011-12	March 15, 2012	Non- Reckoning Fixed Deposits with Banks as Financial Assets
50	DNBS.PD/ CC.No.263/03.10.038 /2011-12	March 20, 2012	Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) - Provisioning Norms- Extension of time
51	DNBS.CC.PD.No.265/03.10.01/2011-12	March 21, 2012	NBFCs - Lending Against Security of Single Product – Gold Jewellery
52	DNBS.CC.PD.No266/03.10.01/2011-12	March 26, 2012	Guidelines on Fair Practices Code for NBFCs
53	DNBS.PD.CC.No.273/03.10.01/2011-12	May 11, 2012	Prudential Norms Directions, 2007 - Infrastructure Finance Companies - Eligible Credit Rating Agencies - Brickwork Ratings India Pvt. Ltd. (Brickwork)
54	DNBS.PD.CC.No.276/03.02.089/2011-12	May 30, 2012	Uniformity in Risk weight for Assets Covering PPP and Post COD Projects
55	DNBS(PD)CC.No.297/Factor/22.10.91/2012-13	July 23, 2012	The Non-Banking Financial Company –Factors (Reserve Bank) Directions, 2012

Sr. No.	Circular No.	Date	Subject
56	Notification No.DNBS(PD).249/CGM (US) -2012	August 1, 2012	Revised Capital Adequacy Framework for Off-Balance sheet items for NBFCs - Clarifications
57	DNBS (PD) CC.No.300/03.10.038/2012-13	August 03 , 2012	Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
58	DNBS. PD. No. 301/3.10.01/2012-13	August 21, 2012	Revisions to the Guidelines on Securitisation Transactions
59	DNBS (PD) CC. No.303/ Factor / 22.10.91/ 2012-13	September 14, 2012	The Non-Banking Financial Company –Factors (Reserve Bank) Directions, 2012
60	DNBS.PD/CC.NO.308/03.10.001/2012-13	November 06, 2012	Standardisation and Enhancement of Security Features in Cheque Forms - Migrating to CTS 2010 Standards
61	DNBS(Inf.).CC. No 309/24.01.022/2012-13	November 08, 2012	Readiness of major service providers to migrate from IPv4 to IPv6
62	DNBS.CC.PD.No. 312/03.10.01/2012-13	December 07, 2012	Checklist for NBFCs, Non Banking Financial Company-Micro Finance Institutions, Non Banking Financial Company-Factoring Institutions and Core Investment Companies
63	DNBS.PD.CC.No. 317/03.10.001/2012-13	December 28, 2012	Definition of 'Infrastructure Loan' of NBFCs - Harmonisation
64	DNBS.CC.PD.No.320/03.10.01/2012-13	February 18, 2013	Guidelines on Fair Practices Code for NBFCs – Grievance Redressal Mechanism - Nodal Officer
65	DNBS.CC.PD.No.326/03.10.01/2012-13	May 27, 2013	NBFCs finance for Purchase of Gold
66	DNBS.(PD).CC.No.327/03.10.038/2012-13	May 31, 2013	'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions – Modifications in Pricing of Credit - Margin cap
67	DNBS.PD/CC.No. 328/03.02.002/2012-13	June 11, 2013	NBFCs not to be Partners in Partnership Firms - Clarifications
68	DNBS (PD) CC No. 353/ 03.10.042/2013-14	July 26, 2013	Unsolicited Commercial Communication- National Do Not Call Registry
69	DNBS.PD.CC.No.354/03.10.001/2013-14	August 2, 2013	Financing of Infrastructure - Definition of 'Infrastructure Lending'
70	DNBS.CC.PD.No.356 /03.10.01/2013-14	September 16, 2013	Lending Against Security of Single Product – Gold Jewellery
71	DNBS.PD/CC.No 359/03.10.001/2013-14	November 06, 2013	Migration of Post-dated cheques (PDC)/Equated Monthly Instalment (EMI) Cheques to Electronic Clearing Service (Debit)
72	DNBS.(PD).CC.No 360/03.10.001/2013-14	November 12, 2013	Filing of records of equitable mortgages with the Central Registry
73	DNBS.PD.CC.No 361/03.02.002/2013-14	November 28, 2013	Participation of NBFCs in Insurance sector

Sr. No.	Circular No.	Date	Subject
74	DNBS.PD.CC.No. 362/03.10.001/2013-14	November 29, 2013	Financing of Infrastructure - Definition of 'Infrastructure Lending'
75	DNBS.PD.363/03.10.38/2013-14	January 1, 2014	Advances guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) – Risk Weights and Provisioning
76	DNBS.CC.PD.No. 365/03.10.01/2013-14	January 08, 2014	Lending Against Security of Single Product – Gold Jewellery
77	DNBS.CO.PD.No 367/03.10.01/2013-14	January 23, 2014	Review of Guidelines on Restructuring of Advances by NBFCs
78	DNBS (PD) CC.No.369/03.10.038/2012-13	February 07, 2014	'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions – Modifications in "Pricing of Credit"
79	DNBS (PD) CC.No.371/03.05.02/2013-14	March 21, 2014	Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy
80	DNBS. PD. No. 372/3.10.01/2013-14	March 24, 2014	Revision to the Guidelines on Securitisation Transactions - Reset of Credit Enhancement
81	DNBS (PD) CC.No.373/03.10.01/2013-14	April 07, 2014	Investment through Alternative Investment Funds – Clarification on Calculation of NOF of an NBFC
82	DNBS (PD).CC.No. 374/03.10.001/2013-14	April 07, 2014	Registration of Non-Operative Financial Holding Companies (NOFHCs)
83	DNBS (PD) CC.No.376/03.10.001/2013-14	May 26, 2014	Requirement for obtaining prior approval of RBI in cases of acquisition/ transfer of control of NBFCs
84	DNBS.CC.PD.No.377/03.10.01/2013-14	May 27, 2014	Rounding off transactions to the Nearest Rupee by NBFCs
85	DNBS(PD).CC.No.399/03.10.42/2014-15	July 14, 2014	Levy of foreclosure charges/pre-payment penalty on Floating Rate Loans
86	DNBS.CC.PD.No. 405/03.10.01/2014-15	August 12, 2014	Appointment of Non-Deposit Accepting NBFCs with asset size of ₹100 crore and above as sub - agents under Money Transfer Service Schemes (MTSS)
87	DNBS.CC.PD.No.406/03.10.01/2014-15	August 12, 2014	Interest Rate Futures - NBFCs
88	DNBS (PD).CC. No 407/03.10.42 /2014-15	August 20, 2014	Data Format for Furnishing of Credit Information to Credit Information Companies (CICs) and other Regulatory Measures
89	DNBS (PD).CC.No. 408 /03.10.001/2014-15	August 21, 2014	NBFCs- Lending against Shares
90	DNBR (PD) CC. No.002/03.10.001/2014-15	November 10, 2014	Revised Regulatory Framework for NBFC

Sr. No.	Circular No.	Date	Subject
91	DNBR (PD) CC.No. 003/22.10.91/2014-15	November 10, 2014	Review of the Non-Banking Financial Company – Factors (Reserve Bank) Directions, 2012
92	DNBR.CO.PD.No.011/03.10.01/2014-15	January 16, 2015	Review of Guidelines on Restructuring of Advances by NBFCs
93	DNBR.PD.CC.No.012/03.10.001/2014-15	January 19, 2015	Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries
94	DNBR.(PD).CC.No.015/03.10.001/2014-15	January 28, 2015	Submission of Data to Credit Information Companies - Format of Data to be submitted by Credit Institutions
95	DNBR.(PD).CC.No.019/03.10.001/2014-15	February 06, 2015	Membership of Credit Information Companies (CICs)
96	DNBR (PD) CC No.021/03.10.001/2014-15	February 20, 2015	Raising Money through Private Placement of Non-Convertible Debentures (NCDs) by NBFCs
97	Notification No.DNBR.008/CGM.(CDS)-2015	March 27,2015	Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015
98	DNBR.012/CGM.(CDS)-2015	March 27,2015	Non-Banking Financial Company - Factor (Reserve Bank) Directions, 2012 (Amendment)
99	DNBR.CC.PD.No.027/03.10.01/2014-15	April 08, 2015	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
100	DNBR (PD).CC.No.028/03.10.001/2014-15	April 10, 2015	NBFCs- Lending against Shares – Clarification
101	DNBR. (PD).CC.No. 033/03.10.001/2014-15	April 30, 2015	Distribution of Mutual Fund products by NBFCs
102	DNBR.CC.PD.No.036/03.10.01/2014-15	May 21, 2015	Lending against security of single product - Gold Jewellery
103	DNBR.CC.PD.No.041/03.10.01/2014-15	June 25, 2015	Appointment of Non-Deposit Accepting NBFCs with asset size of ₹ 100 crore and above as sub- agents under Money Transfer Service Schemes (MTSS)
104	DNBR (PD) CC.No. 065/03.10.001/2015-16	July 09, 2015	Requirement for obtaining prior approval of RBI in cases of acquisition/ transfer of control of Non-Banking Financial Companies (NBFCs)
105	DNBR.CC.PD.No.066/03.10.01/2015-16	July 23, 2015	Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy - Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)

Sr. No.	Circular No.	Date	Subject
106	DNBR.CO.PD.No. 067/03.10.01/2015-16	July 30, 2015	Review of Guidelines on Restructuring of Advances by NBFCs
107	DNBR.CC.PD.No. 069/ 03.10.01/ 2015-16	October 01, 2015	Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
108	DNBR.CC.PD.No. 070/03.10.01/2015-16	October 29, 2015	Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy - Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
109	DNBR.CC.PD.No. 071/03.10.038/2015-16	November 26, 2015	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions DNBS.PD.No. 234/CGM (US)-2011 dated December 2, 2011 and DNBR.CC.PD.No. 027/03.10.01/2014-15 dated April 08, 2015 – Revision of the loan amount with tenure not less than 24
110	DNBR(PD).CC.No. 072/03.10.001/2015-16	January 28, 2016	Provision of Safe Deposit Locker facility by NBFCs
111	DNBR (PD)CC.No. 073/03.10.001/2015-16	February 18, 2016	Undertaking of Point of Presence (PoP) Services under Pension Fund Regulatory and Development Authority for National Pension System (NPS)
112	DNBR.CC.PD.No.074/03.10.01/2015-16	February 18, 2016	NBFC – Factors (Reserve Bank) Directions, 2012 – Review
113	DNBR.(PD).CC.No.076/03.10.001/2015-16	March 10, 2016	Review of risk weights assigned to sovereign debt
114	DNBR.CC.PD.No.078/03.10.038/2015-16	April 13, 2016	Non-Banking Financial Company-Micro Finance Institutions (Reserve Bank) Directions, 2011 – Acting as Channelizing Agents for Schemes operated by Central/State Government Agencies
115	DNBR.CC.PD.No.081/03.10.01/2015-16	May 26, 2016	Review of Framework for Revitalising Distressed Assets in the Economy and Strategic Debt Restructuring Mechanism
116	DNBR.CC.PD.No.082/03.10.001/2015-16	June 2, 2016	Refinancing of Project Loans
117	DNBR(PD)CC.No.083/03.10.001/2016-17	July 28, 2016	Guidelines for Relief Measures by NBFCs in areas affected by Natural Calamities

Annex I

Timeline for Government NBFCs

Norm	Extant Provisions for other NBFCs	Govt. NBFCs Timeline
Prudential Regulation		
Income recognition	As prescribed	Balance Sheet dated March 31, 2019
Asset Classification	NBFC-NDSI and NBFCs-D – 90 days norm NBFCs-ND – 180 days norm	NBFC-ND-SI and NBFCs-D 120 days – March 31, 2019 90 days – March 31, 2020 NBFCs-ND 180 day norm – March 31, 2019
Provisioning requirement	For NPAs – As specified in the Directions. For Standard Assets NBFC-NDSI and NBFCs-D- 0.40% NBFCs-ND – 0.25%	As on March 31, 2019 – 100% of prescribed requirement
Capital Adequacy Applicable to NDSI and NBFC –D	CRAR – 15% Tier I – 10%	10% (min Tier I – 7%; – March 31, 2019 12% (min Tier I – 8%) – March 31, 2020 13% (min Tier I – 9%) – March 31, 2021 15% (min Tier I – 10%) – March 31, 2022
Leverage Ratio	Applicable to NBFC–ND	A roadmap for adherence by March 31, 2022 to be prepared by the Govt. NBFC - ND
Concentration of credit/ investment	As prescribed	Govt. companies set up to serve specific sectors may approach the Reserve Bank for exemptions, if any. For others, the timeline will be up to balance Sheet dated March 31, 2022.
Others		
Corporate Governance etc.	As prescribed	Balance Sheet dated March 31, 2019
Conduct of Business Regulations (Fair Practices Code)	As prescribed	Balance Sheet dated March 31, 2019

Norm	Extant Provisions for other NBFCs	Govt. NBFCs Timeline
Acceptance of Deposit Directions		
Deposit Directions	As prescribed for NBFC-D	• Investment Grade Credit rating for acceptance of public deposits-March 31, 2019. • A Govt. NBFC-D having investment grade credit rating can accept deposits only upto 1.5 times of its NOF. Govt. NBFCs holding deposits in excess of the limit shall not access fresh deposits or renew existing ones till they conform to the limit, the existing deposits will be allowed to run off till maturity. • All other directions shall apply from Balance Sheet dated March 31, 2019.
Statutory Provisions		
Sec 45 IB	Maintenance of percentage of assets – 15% of the outstanding deposits	March 31, 2019–5% of outstanding deposits March 31, 2020 – 10% of outstanding deposits March 31, 2021 – 12% of outstanding deposits March 31, 2022 – 15% of outstanding deposits
Sec 45 IC	Reserve Fund	March 31, 2019

Annex II

Guidelines on Liquidity Risk[25] Management Framework

Non-deposit taking NBFCs with asset size of ₹100 crore and above, systemically important Core Investment Companies and all deposit taking NBFCs (except Type I NBFC-ND[26], Non-Operating Financial Holding Company and Standalone Primary Dealer) shall adhere to the guidelines as mentioned herein below. It will be the responsibility of the Board to ensure that the guidelines are adhered to. The internal controls required to be put in place by NBFCs as per these guidelines shall be subject to supervisory review. Further, as a matter of prudence, all other NBFCs are also encouraged to adopt these guidelines on liquidity risk management on voluntary basis. The guidelines deal with following aspects of Liquidity Risk Management framework.

A. Liquidity Risk Management Policy, Strategies and Practices
B. Management Information System (MIS)
C. Internal Controls
D. Maturity profiling
E. Liquidity Risk Measurement – Stock Approach
F. Currency Risk
G. Managing Interest Rate Risk
H. Liquidity Risk Monitoring Tools

A. Liquidity Risk Management Policy, Strategies and Practices

In order to ensure a sound and robust liquidity risk management system, the Board of the NBFC shall frame a liquidity risk management framework which ensures that it maintains sufficient liquidity[27], including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It shall spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

Key elements of the liquidity risk management framework are as under:

i) Governance of Liquidity Risk Management

Successful implementation of any risk management process has to emanate from the top management in the NBFC with the demonstration of its strong commitment

[25] "Liquidity Risk" means inability of an NBFC to meet such obligations as they become due without adversely affecting the NBFC's financial condition. Effective liquidity risk management helps ensure an NBFC's ability to meet its obligations as and when they fall due and reduces the probability of an adverse situation developing.
[26] Type I NBFC-ND as defined in RBI press release dated June 17, 2016.
[27] "Liquidity" means NBFC's capacity to fund the increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses.

to integrate basic operations and strategic decision-making with risk management. The Chief Risk Officer appointed by the NBFC in terms of our circular DNBR (PD) CC. No.099/03.10.001/2018-19 dated May 16, 2019 shall be involved in the process of identification, measurement and mitigation of liquidity risks. A desirable organisational set up for liquidity risk management should be as under:

a) Board of Directors

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures of the NBFC to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

b) Risk Management Committee

The Risk Management Committee, which reports to the Board and consisting of Chief Executive Officer (CEO)/ Managing Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk.

c) Asset-Liability Management Committee (ALCO)

The ALCO consisting of the NBFC's top management shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the NBFC. The CEO/ MD or the Executive Director (ED) should head the Committee. The Chiefs of Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research may be members of the Committee. The role of the ALCO with respect to liquidity risk should include, *inter alia*, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of all branches.

d) Asset Liability Management (ALM) Support Group

The ALM Support Group consisting of the operating staff shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in an NBFC.

ii) Liquidity risk Tolerance

An NBFC shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. It should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the NBFC maintains sufficient liquidity.

iii) Liquidity Costs, Benefits and Risks in the Internal Pricing

NBFCs should endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

iv) Off-balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialise in times of stress.

v) Funding Strategy- Diversified Funding

An NBFC shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. An NBFC should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding. Funding strategy should also take into account the qualitative dimension of the concentrated behaviour of deposit withdrawal (for deposit taking NBFCs) in typical market conditions and over-reliance on other funding sources arising out of unique business model.

vi) Collateral Position Management

An NBFC shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, an NBFC should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

vii) Stress Testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in NBFCs. An NBFC should conduct stress tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the NBFC’s business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the NBFC is exposed.

viii) Contingency Funding Plan

An NBFC shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the NBFC’s ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

ix) Public disclosure

An NBFC shall publicly disclose information (Appendix I) on a quarterly basis on the official website of the company and in the annual financial statement as notes to account that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

x) Intra Group transfers

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Financial officer (CFO) is expected to develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group[28]. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Processes and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

B. Management Information System (MIS)

An NBFC shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the NBFC and the Group to the Board and ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

C. Internal Controls

An NBFC shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and evaluates the various components of the NBFC's liquidity risk management process.

D. Maturity Profiling

a) For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool. The Maturity Profile should be used

[28]As defined in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

for measuring the future cash flows of NBFCs in different time buckets. The Maturity Profile as given in Appendix I could be used for measuring the future cash flows of NBFCs in different time buckets. The time buckets shall be distributed as under:

(i) 1 day to 7 days
(ii) 8 days to 14 days
(iii) 15 days to 30/31 days (one month)
(iv) Over one month and upto 2 months
(v) Over two months and upto 3 months
(vi) Over 3 months and upto 6 months
(vii) Over 6 months and upto 1 year
(viii) Over 1 year and upto 3 years
(ix) Over 3 years and upto 5 years
(x) Over 5 years

b) NBFCs would be holding in their investment portfolio, securities which could be broadly classifiable as 'mandatory securities' (under obligation of law) and other 'non-mandatory securities'. In case of NBFCs not holding public deposits, all investments in securities, and in case of NBFCs holding public deposits, the surplus securities (held over and above the requirement), shall fall in the category of 'non-mandatory securities'. Alternatively, the NBFCs may also follow the concept of Trading Book as per the extant prescriptions for NBFCs.

c) The NBFCs holding public deposits may be given freedom to place the mandatory securities in any time buckets as suitable for them. The listed non-mandatory securities may be placed in any of the "1 day to 7 days, 8 days to 14 days, 15 days to 30/31 days (One month)", Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by NBFCs. The unlisted non-mandatory securities (e.g., equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted non-mandatory securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity. The mandatory securities and listed securities may be marked to market for the purpose of the ALM system. Unlisted securities may be valued as per Prudential Norms Directions.

d) Alternatively, the NBFCs may also follow the concept of Trading Book which is as follows:

i. The composition and volume are clearly defined;
ii. Maximum maturity/duration of the portfolio is restricted;
iii. The holding period not to exceed 90 days;
iv. Cut-loss limit prescribed;
v. Defeasance periods (product-wise) i.e., time taken to liquidate the position on the basis of liquidity in the secondary market are prescribed;

NBFCs which maintain such 'Trading Books' and complying with the above standards shall show the trading securities under "1 day to 30/ 31 days (One month)", Over one month and upto 2 months" and "Over two months and upto 3 months" buckets on the basis of the defeasance periods. The Board/ ALCO of the NBFCs shall approve the volume, composition, holding/ defeasance period, cut loss, etc. of the 'Trading Book'. The remaining investments shall also be classified as short term and long term investments as required under Prudential Norms.

e) The policy note recorded by the NBFCs on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ ALCO shall be forwarded to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located.

f) Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, *viz.,* 1-30/ 31 days. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days shall not exceed 10 per cent, 10 per cent and 20 per cent of the cumulative cash outflows in the respective time buckets. NBFCs, however, are expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. NBFCs shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.

g) The Statement of Structural Liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.

h) In order to enable the NBFCs to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, NBFCs shall estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

E. Liquidity Risk Measurement – Stock Approach

NBFCs shall adopt a "stock" approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by their Board. The ratios and the internal limits shall be based on an NBFC's liquidity risk management capabilities, experience and profile. An indicative list of certain critical ratios to monitor re short-term[29] liability to total assets; short-term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs)(original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

[29] Less than one year

F. Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile of an NBFC's balance sheets having foreign assets or liabilities. The Board of NBFCs should recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

G. Managing Interest Rate Risk (IRR)

a) The operational flexibility given to NBFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way. The immediate impact of changes in interest rates is on NBFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on NBFC's Market Value of Equity (MVE) or Net Worth as the economic value of NBFC's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). There are many analytical techniques for measurement and management of Interest Rate Risk. To begin with, the traditional Gap analysis is considered as a suitable method to measure the Interest Rate Risk in the first place. It is the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when NBFCs acquire sufficient expertise and sophistication in acquiring and handling MIS.

b) The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i. within the time interval under consideration, there is a cash flow;
ii. the interest rate resets/ reprices contractually during the interval;
iii. dependent on RBI changes in the interest rates/ Bank Rate;
iv. it is contractually pre-payable or withdrawal before the stated maturities.

c) The Gap Report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/ reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the NBFC expects to receive it within the time horizon. This includes final principal payment and interim instalments. Certain assets and liabilities to receive/ pay rates that vary with a reference rate. These assets and liabilities are repriced at pre-determined intervals and are rate sensitive at the time of repricing. While the interest rates on term deposits are fixed during their currency, the tranches of advances portfolio is basically floating. The interest rates on advances received could be repriced any number of occasions, corresponding to the changes in PLR.

d) The Gaps may be identified in the following time buckets:

i) 1 day to 7 days
ii) 8 days to 14 days
iii) 15 days -30/ 31 days (One month)
iv) Over one month to 2 months
v) Over two months to 3 months
vi) Over 3 months to 6 months
vii) Over 6 months to 1 year
viii) Over 1 year to 3 years
ix) Over 3 years to 5 years
x) Over 5 years
xi) Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified as explained in Appendix - III.

e) The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a positive Gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

f) Each NBFC shall set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The NBFCs may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board/Management Committee. For working out EaR or NIM any of the current models may be used.

g) The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices I & II is the benchmark. NBFCs which are better equipped to reasonably estimate the behavioural pattern of various components of assets and liabilities on the basis of past data / empirical studies could classify them in the appropriate time buckets, subject to approval from the ALCO / Board. A copy of the note approved by the ALCO / Board shall be sent to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located. These notes may contain 'what if scenario' analysis under various assumed conditions and the contingency plans to face various adverse developments.

h) The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile of NBFCs. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial. NBFCs shall, therefore, evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behavior of assets, liabilities and off-balance sheet items to changes in market variables and estimate the probabilities of options.

i) A scientifically evolved internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an important component for effective implementation of ALM System. The transfer price mechanism can enhance the management of margin i.e. lending or credit spread, the funding or liability spread and mismatch spread. It also helps centralising interest rate risk at one place which facilitates effective control and management of interest rate risk. A well-defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

Appendix I

Public disclosure on liquidity risk

(i) Funding Concentration based on significant counterparty (both deposits and borrowings)

Sr No.	Number of Significant Counterparties	Amount (₹ crore)	% of Total deposits	% of Total Liabilities

(ii) Top 20 large deposits (amount in ₹ crore and % of total deposits)

(iii) Top 10 borrowings (amount in ₹ crore and % of total borrowings)

(iv) Funding Concentration based on significant instrument/product

Sr No.	Name of the instrument/product	Amount (₹ crore)	% of Total Liabilities

(v) Stock Ratios:

(a) Commercial papers as a % of total public funds, total liabilities and total assets

(b) Non-convertible debentures (original maturity of less than one year) as a % of total public funds, total liabilities and total assets

(c) Other short-term liabilities, if any as a % of total public funds, total liabilities and total assets

(vi) Institutional set-up for liquidity risk management

Appendix - II

Maturity Profile - Liquidity

Heads of Accounts	**Time-bucket category**
A. Outflows	
1. Capital funds	
a) Equity capital, Non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	In the 'over 5 years' time-bucket.
b) Preference capital - redeemable/non-perpetual	As per the residual maturity of the shares.
2. Gifts, grants, donations and benefactions	The 'over 5 years' time-bucket. However, if such gifts, grants, etc. are tied to specific end-use, then these may be slotted in the time- bucket as per purpose/end-use specified.
3. Notes, Bonds and debentures	
a) Plain vanilla bonds/debentures	As per the residual maturity of the instruments
b) Bonds/debentures with embedded call/put options (including zero-coupon/deep discount bonds)	As per the residual period for the earliest exercise date for the embedded option.
c) Fixed rate notes	As per the residual maturity
4. Deposits:	
a) Public deposits	As per the residual maturity.
b) Inter Corporate Deposits	These, being institutional/wholesale deposits, shall be slotted as per their residual maturity
c) Commercial Papers	As per the residual maturity
5. Borrowings	
a) Term money borrowings	As per the residual maturity
b) From RBI, Govt. & others	-do-
c) Bank borrowings in the nature of WCDL, CC etc	Over six months and up to one year
6) Current liabilities and provisions:	
a) Sundry creditors	As per the due date or likely timing of cash outflows. A behavioral analysis could also

	be made to assess the trend of outflows and the amounts slotted accordingly.
b) Expenses payable (other than interest)	As per the likely time of cash outflow.
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 5 years' time-bucket as these do not involve any cash outflow.
d) Interest payable on bonds/deposits	In respective time buckets as per the due date of payment.
e) Provisions for NPAs	The amount of provision may be netted out from the gross amount of the NPA portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time-buckets.
f) Provision for Investments portfolio	The amount may be netted from the gross value of investments portfolio and the net investments be shown as inflow in the prescribed time-slots. In case provisions are not held security-wise, the provision may be shown on "over 5 years" time bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.
B. Inflows	
1. Cash	In 1 to 7 day time-bucket.
2. Remittance in transit	---do---
3. Balances with banks (in India only)	
a) Current account	The stipulated minimum balance be shown in 6 months to 1 year bucket. The balance in excess of the minimum balance be shown under Day 1-7 bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
4. Investments (net of provisions)	
a)Mandatory investments	As suitable to the NBFC
b)Non Mandatory Listed	"1 day to 30/31 days (One month)" Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs
c) Non Mandatory unlisted securities (e.g. shares, etc.)	"Over 5 years"
d) Non-mandatory unlisted securities having a fixed term maturity	As per residual maturity
e) Venture capital units	In the 'over 5 year' time bucket.
5. In case Trading book is followed	

Equity shares, convertible preference shares, non-redeemable/perpetual preference shares, shares of subsidiaries/joint ventures and units in open ended mutual funds and other investments .	(i) Shares classified as "current" investments representing trading book of the NBFC may be shown in time buckets of "1 day 7 days, 8 days to 14 days , 15 days to 30 days (One month)""Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs .
	(ii) Shares classified as "long term" investments may be kept in over "5 years' time" bucket. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.
6. Advances (performing)	
a) Bill of Exchange and promissory notes discounted and rediscounted	As per the residual usance of the underlying bills.
b) Term loans (rupee loans only)	The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule.
c) Corporate loans/short term loans	As per the residual maturity
7. Non-performing loans (May be shown net of the provisions, interest suspense held)	
a) <u>Sub-standard</u>	
i) All overdues and instalments of principal falling due during the next three years	In the 3 to 5 year time-bucket.
ii) Entire principal amount due beyond the next three years	In the over 5 years' time-bucket
b<u>) Doubtful and loss</u>	
i) All instalments of principal falling due during the next five years as also all overdues	In the over 5 year time-bucket
ii) Entire principal amount due beyond the next five years	In the over 5 year time-bucket
8. Assets on lease	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
9. Fixed assets (excluding leased assets)	In the 'over 5 year' time-bucket.

10. Other assets	
(a) Intangible assets and items not representing cash inflows.	In the 'over 5 year' time-bucket.
(b)Other items (such as accrued income, other receivables, staff loans, etc.)	In respective maturity buckets as per the timing of the cashflows.
<u>C. Contingent liabilities</u>	
(a) Letters of credit/guarantees (outflow through devolvement)	Based on the past trend analysis of the devolvements vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvements shall be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvements may be shown under respective maturity buckets on the basis of probable recovery dates.
(b) Loan commitments pending disbursal (outflow)	In the respective time buckets as per the sanctioned disbursement schedule.
(c) Lines of credit committed to/by other Institutions (outflow/inflow)	As per usance of the bills to be received under the lines of credit.

<u>Note:</u>

Any event-specific cash flows (e.g. outflow due to wage settlement arrears, capital expenses, income tax refunds, etc.) shall be shown in a time bucket corresponding to timing of such cash flows.

a. All overdue liabilities be shown in the 1 to 7 days and 8-14 days time buckets based on behavioural estimates

b. Overdue receivables on account of interest and instalments of standard loans / hire purchase assets / leased rentals shall be slotted as below:

(i)	Overdue for less than one month.	In the 3 to 6 month bucket.
(ii)	Interest overdue for more than one month but less than seven months (i.e. before the relative amount becomes past due for six months)	In the 6 to 12 month bucket without reckoning the grace period of one month.
(iii)	Principal instalments overdue for 7 months but less than one year	In 1 to 3 year bucket.

Appendix III

Interest Rate Sensitivity

Heads of accounts	Rate sensitivity of time bucket
LIABILITIES	
1. Capital, Reserves & Surplus	Non-sensitive
2. Gifts, grants & benefactions	-do-
3. Notes, bonds & debentures :	
a) Floating rate	Sensitive; reprice on the roll- over/repricing date, shall be slotted in respective time buckets as per the repricing dates.
b) Fixed rate (plain vanilla) including zero coupons	Sensitive; reprice on maturity. To be placed in respective time buckets as per the residual maturity of such instruments.
c) Instruments with embedded options	Sensitive; could reprice on the exercise date of the option particularly in rising interest rate scenario. To be placed in respective time buckets as per the next exercise date.
4. Deposits	
a) Deposits/Borrowings	
i) Fixed rate	Sensitive; could reprice on maturity or in case of premature withdrawal being permitted, after the lock-in period, if any, stipulated for such withdrawal. To be slotted in respective time buckets as per residual maturity or as per residual lock-in period, as the case may be. The prematurely withdrawable deposits with no lock-in period or past such lock-in period, shall be slotted in the earliest /shortest time bucket.
ii) Floating rate	Sensitive; reprice on the contractual roll-over date. To be slotted in the respective time-buckets as per the next repricing date.
b) ICDs	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets.
5. Borrowings:	
a) Term-money borrowing	Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket.
b) Borrowings from others	
i) Fixed rate	Sensitive; reprice on maturity. To be placed as

	per residual maturity in the relative time bucket.
ii) Floating rate	Sensitive; reprice on the roll-over/ repricing date. To be placed as per residual period to the repricing date in the relative time bucket.
6. Current liabilities & provisions	
a. Sundry creditors b. Expenses payable c. Swap adjustment a/c. d. Advance income received/receipts from borrowers pending adjustment e. Interest payable on bonds/deposits f. Provisions	)))) Non-sensitive))))
7. Repos/ bills rediscounted/forex swaps (Sell / Buy)	Sensitive; reprices on maturity. To be placed as per the residual maturity in respective buckets.
ASSETS:	
1. Cash	Non-sensitive.
2. Remittance in transit	Non-sensitive.
3. Balances with banks in India	
a) In current a/c.	Non-sensitive.
b) In deposit accounts, Money at call and short notice and other placements	Sensitive; reprices on maturity. To be placed as per residual maturity in respective time-buckets.
4. Investments	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative, non-cumulative, redeemable preference shares, etc.)	Sensitive on maturity. To be slotted as per residual maturity. However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, shall be shown, net of provisions made, in: i) 3-5 year bucket - if sub-std. norms applied. ii) Over 5 year bucket - if doubtful norms applied.
b) Floating rate securities	Sensitive; reprice on the next repricing date. To be slotted as per residual time to the repricing date.
c) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units.	Non-sensitive.
5. Advances (performing)	
a) Bills of exchange, promissory notes	Sensitive on maturity. To be slotted as per the

discounted & rediscounted	residual usance of the underlying bills.
b) Term loans/corporate loans / Short Term Loans (rupee loans only)	
i) Fixed Rate	Sensitive on cash flow/ maturity.
ii) Floating Rate	Sensitive only when PLR or risk premium is changed by the NBFCs. The amount of term loans shall be slotted in time buckets which correspond to the time taken by NBFCs to effect changes in their PLR in response to market interest rates.
6. <u>Non-performing loans:</u> (net of provisions, interest suspense and claims received from ECGC)	
a. Sub-standard) b. Doubtful and loss)	To be slotted as indicated at item B.7 of Appendix I.
7. <u>Assets on lease</u>	The cash flows on lease assets are sensitive to changes in interest rates. The leased asset cash flows be slotted in the time-buckets as per timing of the cash flows.
8. <u>Fixed assets</u> (excluding assets on lease)	Non-sensitive.
9. <u>Other assets</u>	
a) Intangible assets and items not representing cash flows.	Non-sensitive.
b) Other items (e.g. accrued income, other receivables, staff loans, etc.)	Non-sensitive.
10. Reverse Repos/Swaps (Buy /Sell) and Bills rediscounted (DUPN)	Sensitive on maturity. To be slotted as per residual maturity.
11. <u>Other (interest rate) products</u>	
a) Interest rate swaps	Sensitive; to be slotted as per residual maturity in respective time buckets.
b) Other Derivatives	To be classified suitably as per the residual maturity in respective time buckets

Annex III

Schedule to the Balance Sheet of a NBFC

					(₹ in lakh)
Particulars					
Liabilities side				**Amount outstanding**	**Amount overdue**
(1)	**Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not paid :**				
	(a)	Debentures : Secured			
		: Unsecured (other than falling within the meaning of public deposits*)			
	(b)	Deferred Credits			
	(c)	Term Loans			
	(d)	Inter-corporate loans and borrowing			
	(e)	Commercial Paper			
	(f)	Public Deposits*			
	(g)	Other Loans (specify nature)			
	* Please see Note 1 below				
(2)	**Break-up of (1)(f) above (Outstanding public deposits inclusive of interest accrued thereon but not paid) :**				
	(a)	In the form of Unsecured debentures			
	(b)	In the form of partly secured debentures i.e. debentures where there is a shortfall in the value of security			
	(c)	Other public deposits			
	* Please see Note 1 below				
Assets side				**Amount outstanding**	
(3)	**Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :**				
	(a)	Secured			
	(b)	Unsecured			
(4)	**Break up of Leased Assets and stock on hire and other assets counting towards asset financing activities**				
	(i)	Lease assets including lease rentals under sundry debtors :			
		(a)	Financial lease		
		(b)	Operating lease		
	(ii)	Stock on hire including hire charges under sundry debtors :			
		(a)	Assets on hire		
		(b)	Repossessed Assets		
	(iii)	Other loans counting towards asset financing activities			
		(a)	Loans where assets have been repossessed		
		(b)	Loans other than (a) above		
(5)	**Break-up of Investments**				
	Current Investments				
	1.	Quoted			
		(i)	Shares		
			(a) Equity		
			(b) Preference		
		(ii)	Debentures and Bonds		
		(iii)	Units of mutual funds		
		(iv)	Government Securities		
		(v)	Others (please specify)		

	2.	Unquoted		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	Long Term investments			
	1.	Quoted		
		(i)	Share	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	2.	Unquoted		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
		(vi)		

(6) **Borrower group-wise classification of assets financed as in (3) and (4) above :**

Please see Note 2 below

Category			Amount net of provisions		
			Secured	**Unsecured**	**Total**
1.	**Related Parties ****				
	(a)	Subsidiaries			
	(b)	Companies in the same group			
	(c)	Other related parties			
2.	Other than related parties				
Total					

(7) **Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted) :**

Please see note 3 below

Category			**Market Value / Break up or fair value or NAV**	**Book Value (Net of Provisions)**
1.	Related Parties **			
	(a)	Subsidiaries		
	(b)	Companies in the same group		
	(c)	Other related parties		
2.	Other than related parties			
Total				

** As per Accounting Standard of ICAI (Please see Note 3)

(8) **Other information**

Particulars			**Amount**
(i)	Gross Non-Performing Assets		
	(a)	Related parties	
	(b)	Other than related parties	
(ii)	Net Non-Performing Assets		
	(a)	Related parties	
	(b)	Other than related parties	
(iii)	Assets acquired in satisfaction of debt		

Notes:

1. As defined in point xxv of paragraph 3 of Chapter -II of these Directions.

2.	Provisioning norms shall be applicable as prescribed in these Directions.
3.	All notified Accounting Standards and Guidance Notes issued by ICAI are applicable including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up/ fair value/ NAV in respect of unquoted investments shall be disclosed irrespective of whether they are classified as long term (amortised cost in the case of Ind AS) or current (fair value in the case of Ind AS) in (5) above.

Annex IV

Data on Pledged Securities

<table>
<tr><td colspan="2">Name of the NBFC Lender</td><td colspan="4"></td></tr>
<tr><td colspan="2">PAN</td><td colspan="4"></td></tr>
<tr><td colspan="2">Date of Reporting</td><td colspan="4"></td></tr>
<tr><td colspan="2">Share-holding Information</td><td colspan="4"></td></tr>
<tr><td>Name of the Company</td><td>ISIN</td><td>No of Shares held against loans</td><td>Type of the Borrower (Promoter/Non Promoter)</td><td>Name of the Borrower</td><td>PAN of the Borrower</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Annex V

Guidelines for Licensing of New Banks in the Private Sector

Definitions

I. Promoter

Promoter means, the person who together with his relatives (as defined in section 6 of the Companies Act, 1956), by virtue of his ownership of voting equity shares, is in effective control of the NOFHC, and includes, wherever applicable, all entities which form part of the Promoter Group.

II. Promoter Group

"Promoter Group" includes:

(i) the promoter;

(ii) relatives of the promoter as defined in Section 6 of Companies Act 1956; and

(iii) in case promoter is a body corporate:

(A) a subsidiary or holding company of such body corporate;

(B) any body corporate in which the promoter holds ten per cent or more of the equity share capital or which holds ten per cent or more of the equity share capital of the promoter;

(C) any body corporate in which a group of individuals or companies or combinations thereof which hold twenty per cent or more of the equity share capital in that body corporate also holds twenty per cent or more of the equity share capital of the promoter;

(D) Joint venture (as defined in terms of AS 23) with the promoter;

(E) Associate (as defined in terms of AS 27) of the promoter;

(F) Related party (as defined in terms of AS 18) of the promoter; and

(iv) in case the promoter is an individual:

(A) any body corporate in which ten per cent or more of the equity share capital is held by the promoter or a relative of the promoter or a firm or Hindu Undivided Family in which the promoter or any one or more of his immediate relative is a member;

(B) any body corporate in which a body corporate as provided in (A) above holds ten per cent or more, of the equity share capital;

(C) any Hindu Undivided Family or firm in which the aggregate shareholding of the promoter and his immediate relatives is equal to or more than ten per cent of the total; and

(v) all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus under the heading "shareholding of the promoter group";

(vi) Entities sharing a common brand name with entities discussed in A, B, C, D E, F where the promoter is a body corporate and A, B, C where the promoter is an individual;

Provided that a financial institution, scheduled bank, foreign institutional investor or mutual fund shall not be deemed to be promoter group merely by virtue of the fact that ten per cent or more of the equity share capital of the promoter is held by such institution.

Norms on Restructuring of Advances by NBFC

1. These prudential norms shall be applicable to all restructurings including those under CDR Mechanism. The institutional/ organizational framework for CDR Mechanism and SME Debt Restructuring Mechanism shall be as per Annex-4 of DBOD.No.BP.BC.1/21.04.048/2013-14 dated July 1, 2013. The same is given in Appendix-3.

2. Key Concepts

Key concepts used in these norms are defined in Appendix-2.

3. Projects under implementation

3.1 For all projects financed by the NBFCs, the 'Date of Completion' and the 'Date of Commencement of Commercial Operations' (DCCO), of the project shall be clearly spelt out at the time of financial closure of the project and the same shall be formally documented. These shall also be documented in the appraisal note by the NBFCs during sanction of the loan.

3.2 **Project Loans**

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by NBFCs. Accordingly, the following asset classification norms shall apply to the project loans before commencement of commercial operations.

For this purpose, all project loans have been divided into the following two categories:

(a) Project Loans for infrastructure sector

(b) Project Loans for non-infrastructure sector

For the purpose of these Directions, 'Project Loan' shall mean any term loan which has been extended for the purpose of setting up of an economic venture. Further, Infrastructure Sector is as defined in the extant Prudential Norms Directions for NBFCs.

3.3. **Project Loans for Infrastructure Sector**

(i) A loan for an infrastructure project shall be classified as NPA during any time before commencement of commercial operations as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(ii) A loan for an infrastructure project shall be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(iii) If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original DCCO, it shall be retained as a standard asset if the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

(a) ***Infrastructure Projects involving court cases***

Up to another 2 years (beyond the existing extended period of 2 years, as prescribed in para 3.3 (ii), i.e. total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) ***Infrastructure Projects delayed for other reasons beyond the control of promoters***

Up to another 1 year (beyond the existing extended period of 2 years, as prescribed in para 3.3 (ii), i.e. total extension of 3 years), in other than court cases.

(iv) It is re-iterated that the dispensation in para 3.3 (iii) is subject to adherence to the provisions regarding restructuring of accounts which shall inter alia require that the application for restructuring shall be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable shall be:

(a) In cases where there is moratorium for payment of interest, NBFCs shall not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

(b) NBFCs shall maintain following provisions on such accounts as long as these are classified as standard assets in addition to provision for diminution in fair value :

<table>
<tr><th>Particulars</th><th colspan="3">Provisioning Requirement</th></tr>
<tr><td>If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure</td><td>*</td><td colspan="2">0.25 percent</td></tr>
<tr><td rowspan="8">If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay</td><td colspan="3">Project loans restructured with effect from January 24, 2014 :</td></tr>
<tr><td>*</td><td colspan="2">5.00 per cent - From the date of such restructuring till the revised DCCO or 2 years from the- date of restructuring, whichever is later.</td></tr>
<tr><td></td><td colspan="2">Stock of project loans classified as restructured as on January 23, 2014 :</td></tr>
<tr><td></td><td>-</td><td>2.75 percent - with effect from March 31, 2014</td></tr>
<tr><td></td><td>-</td><td>3.50 percent - with effect from March 31, 2015(spread over the four quarters of 2014-15)</td></tr>
<tr><td></td><td>-</td><td>4.25 percent - with effect from March 31, 2016(spread over the four quarters of 2015-16)</td></tr>
<tr><td></td><td>-</td><td>5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17)</td></tr>
<tr><td>*</td><td colspan="2">The above provisions shall be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.</td></tr>
</table>

(v) For the purpose of these Directions, mere extension of DCCO shall not be considered as restructuring, if the revised DCCO falls within the period of two years from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO shall also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans shall be treated as standard assets in all respects, they shall attract standard asset provision of 0.25 per cent.

(v) (a) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) shall be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits as stated in above points and all other terms and conditions of the loan remained unchanged.

If deemed fit, NBFCs may extend DCCO beyond the respective time limits quoted at (iii)(a) to (b) above; however, in that case, NBFCs shall not be able to retain the 'standard' asset classification status of such loan accounts.

(v)(b) In cases where NBFCs have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

In cases where the initial financial closure does not envisage such financing of cost overruns, NBFCs have been allowed to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at (iii)(a) to (b) above, without treating the loans as 'restructured asset' subject to the following conditions:

i) NBFCs may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure shall remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio shall be acceptable to the lenders;

iv) Disbursement of funds for cost overruns shall start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

v) All other terms and conditions of the loan shall remain unchanged or enhanced in favour of the lenders.

(v)(c)(a) In order to facilitate revival of the projects stalled primarily due to inadequacies of the current promoters, it is advised that if a change in ownership takes place any time during the periods quoted in paragraphs 3(3.3)(iii) and 3(3.3)(v) above or before the original DCCO, NBFCs may permit extension of the DCCO of the project up to two years in addition to the periods quoted at paragraph 3(3.3)(iii) and 3(3.3)(v) above, as the case may be, without any change in asset classification of the account subject to the conditions stipulated in the following paragraphs. NBFCs may also consequentially shift/extend repayment schedule, if required, by an equal or shorter duration.

(b) It is clarified that in cases where change in ownership and extension of DCCO (as indicated in paragraph 3(3.3)(v)(c)(a) above) takes place before the original DCCO, and if the project fails to commence commercial operations by the extended DCCO, the project shall be eligible for further extension of DCCO in terms of guidelines quoted at paragraph 3(3.3)(iii) and 3(3.3)(v) above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 3(3.3)(v) above, the account may still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 3(3.3)(iii) above, without classifying the account as non-performing asset.

(c) The provisions contained in sub para (a) and (b) above are subject to the following conditions:

i) NBFCs shall establish that implementation of the project is stalled/affected primarily due to inadequacies of the current promoters/management and with a change in ownership there is a very high probability of commencement of commercial operations by the project within the extended period;

ii) The project in consideration shall be taken-over/acquired by a new promoter/promoter group with sufficient expertise in the field of operation. If the acquisition is being carried out by a special purpose vehicle (domestic or overseas), the NBFC shall be able to clearly demonstrate that the acquiring entity is part of a new promoter group with sufficient expertise in the field of operation;

iii) The new promoters shall own at least 51 per cent of the paid up equity capital of stake in the acquired project. If the new promoter is a non-resident, and in sectors where the ceiling on foreign investment is less than 51 per cent, the new promoter shall own at least 26 per cent of the paid-up equity capital or up to applicable foreign investment limit, whichever is higher, provided NBFCs are satisfied that with this equity stake the new non-resident promoter controls the management of the project;

iv) Viability of the project shall be established to the satisfaction of the NBFCs.

v) Intra-group business restructuring/ mergers/ acquisitions and/ or takeover/ acquisition of the project by other entities/ subsidiaries/ associates etc. (domestic as well as overseas), belonging to the existing promoter/ promoter group shall not qualify for this facility. The NBFCs shall clearly establish that the acquirer does not belong to the existing promoter group;

vi) Asset classification of the account as on the ‘reference date’ shall continue during the extended period. For this purpose, the ‘reference date’ shall be the date of execution of preliminary binding agreement between the parties to the transaction, provided that the acquisition/ takeover of ownership as per the provisions of law/regulations governing such acquisition/takeover is completed within a period of 90 days from the date of execution of preliminary binding agreement. During the intervening period, the usual asset classification norms shall continue to apply. If the change in ownership is not completed within 90 days from the preliminary binding agreement, the ‘reference date’ shall be the effective date of acquisition/ takeover as per the provisions of law/regulations governing such acquisition/ takeover;

vii) The new owners/ promoters are expected to demonstrate their commitment by bringing in substantial portion of additional monies required to complete the project within the extended time period. As such, treatment of financing of cost overruns for the project shall continue to be subject to the guidelines prescribed in these Directions. Financing of cost overrun beyond the ceiling prescribed in the circular dated January 16, 2015 shall be treated as an event of restructuring even if the extension of DCCO is within the limits prescribed above;

viii) While considering the extension of DCCO (up to an additional period of 2 years) for the benefits envisaged hereinabove, NBFCs shall make sure that the repayment schedule does not extend beyond 85 per cent of the economic life/concession period of the project; and

ix) This facility shall be available to a project only once and will not be available during subsequent change in ownership, if any.

(d) Loans covered under this guideline shall attract provisioning as per the extant provisioning norms depending upon their asset classification status.

(vi) In case of infrastructure projects under implementation, where Appointed Date (as defined in the concession agreement) is shifted due to the inability of the Concession Authority to comply with the requisite conditions, change in date of commencement of commercial operations (DCCO) shall not be treated as 'restructuring', subject to following conditions :

(a) The project is an infrastructure project under public private partnership model awarded by a public authority;

(b) The loan disbursement is yet to begin;

(c) The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender and;

(d) Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement.

3.4. **Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)**

(i) A loan for a non-infrastructure project shall be classified as NPA during any time before commencement of commercial operations as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(ii) A loan for a non-infrastructure project shall be classified as NPA if it fails to commence commercial operations within one year from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(iii) In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of one year from the date of completion as determined at the time of financial closure, NBFCs can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts, provided the fresh DCCO does not extend beyond a period of two years from the original DCCO. This among others shall also imply that the restructuring application is received before the expiry of one year from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable shall be:

(a) In cases where there is moratorium for payment of interest, NBFCs shall not book income on accrual basis beyond one year from the original DCCO, considering the high risk involved in such restructured accounts.

(b) NBFCs shall maintain following provisions on such accounts as long as these are classified as standard assets apart from provision for diminution in fair value due to extension of DCCO:

<table>
<tr><th>Particulars</th><th colspan="3">Provisioning Requirement</th></tr>
<tr><td>If the revised DCCO is within one year from the original DCCO prescribed at the time of financial closure</td><td>*</td><td colspan="2">0.25 percent</td></tr>
<tr><td rowspan="4">If the DCCO is extended beyond one year and upto two years from the original DCCO prescribed at the time of financial closure</td><td colspan="3">Project loans restructured with effect from January 24, 2014 :</td></tr>
<tr><td>*</td><td colspan="2">5.00 per cent –From the date of restructuring for 2 years</td></tr>
<tr><td></td><td colspan="2">Stock of Project loans classified as restructured as on January 23, 2014 :</td></tr>
<tr><td></td><td>-</td><td>2.75 per cent - with effect from March 31, 2014</td></tr>
</table>

		-	3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014- 15)
		-	4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015- 16)
		-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17).
	*	The above provisions will be applicable from the date of restructuring for 2 years.	

(iii) For the purpose of these guidelines, mere extension of DCCO shall not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO shall also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans shall be treated as standard assets in all respects, they shall attract standard asset provision of 0.25 per cent.

(iv)(a) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) shall be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits as stated in above points and all other terms and conditions of the loan remained unchanged.

If deemed fit, NBFCs may extend DCCO beyond the respective time limits quoted at (iii)(a) to (b) above; however, in that case, NBFCs shall not be able to retain the 'standard' asset classification status of such loan accounts.

(iv)(b) In cases where NBFCs have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

In cases where the initial financial closure does not envisage such financing of cost overruns, NBFCs have been allowed to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at (iii)(a) to (b) above, without treating the loans as ‘restructured asset’ subject to the following conditions:

i) NBFCs may fund additional ‘Interest During Construction’, which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure shall remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio shall be acceptable to the lenders;

iv) Disbursement of funds for cost overruns shall start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

v) All other terms and conditions of the loan shall remain unchanged or enhanced in favour of the lenders.

(iv)(c)(a) In order to facilitate revival of the projects stalled primarily due to inadequacies of the current promoters, it is advised that if a change in ownership takes place any time during the periods quoted in paragraphs 3(3.4)(iii) and 3(3.4)(iv) above or before the original DCCO, NBFCs may permit extension of the DCCO of the project up to two years in addition to the periods quoted at paragraph 3(3.4)(iii) and 3(3.4)(iv) above, as the case may be, without any change in asset classification of the account subject to the conditions stipulated in the following paragraphs. NBFCs may also consequentially shift/extend repayment schedule, if required, by an equal or shorter duration.

(b) It is clarified that in cases where change in ownership and extension of DCCO (as indicated in paragraph 3(3.4)(iv)(c)(a) above) takes place before the original DCCO, and if the project fails to commence commercial operations by the extended DCCO, the project will be eligible for further extension of DCCO in terms of guidelines quoted at paragraph 3(3.4)(iii) and 3(3.4)(iv) above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 3(3.4)(iv) above, the account may still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 3(3.4)(iii) above, without classifying the account as non-performing asset.

(c) The provisions contained in sub para (a) and (b) above are subject to the following conditions:

i) NBFCs shall establish that implementation of the project is stalled/ affected primarily due to inadequacies of the current promoters/ management and with a change in ownership there is a very high probability of commencement of commercial operations by the project within the extended period;

ii) The project in consideration shall be taken-over/ acquired by a new promoter/promoter group with sufficient expertise in the field of operation. If the acquisition is being carried out by a special purpose vehicle (domestic or overseas), the NBFC shall be able to clearly demonstrate that the acquiring entity is part of a new promoter group with sufficient expertise in the field of operation;

iii) The new promoters shall own at least 51 per cent of the paid up equity capital of stake in the acquired project. If the new promoter is a non-resident, and in sectors where the ceiling on foreign investment is less than 51 per cent, the new promoter shall own at least 26 per cent of the paid-up equity capital or up to applicable foreign investment limit, whichever is higher, provided NBFCs are satisfied that with this equity stake the new non-resident promoter controls the management of the project;

iv) Viability of the project shall be established to the satisfaction of the NBFCs.

v) Intra-group business restructuring/ mergers/ acquisitions and/ or takeover/ acquisition of the project by other entities/ subsidiaries/ associates etc. (domestic as well as overseas), belonging to the existing promoter/promoter group shall not qualify for this facility. The NBFCs shall clearly establish that the acquirer does not belong to the existing promoter group;

vi) Asset classification of the account as on the ‘reference date’ would continue during the extended period. For this purpose, the ‘reference date’ would be the date of execution of preliminary binding agreement between the parties to the transaction, provided that the acquisition/ takeover of ownership as per the provisions of law/regulations governing such acquisition/ takeover is completed within a period of 90 days from the date of execution of preliminary binding agreement. During the intervening period, the usual asset classification norms would continue to apply. If the change in ownership is not completed within 90 days from the preliminary binding agreement, the ‘reference date’ shall be the effective date of acquisition/ takeover as per the provisions of law/regulations governing such acquisition/ takeover;

vii) The new owners/ promoters are expected to demonstrate their commitment by bringing in substantial portion of additional monies required to complete the project within the extended time period. As such, treatment of financing of cost overruns for the project shall continue to be subject to the guidelines prescribed in these Directions. Financing of cost overrun beyond the ceiling prescribed in the circular dated January 16, 2015 shall be treated as an event of restructuring even if the extension of DCCO is within the limits prescribed above;

viii) While considering the extension of DCCO (up to an additional period of 2 years) for the benefits envisaged hereinabove, NBFCs shall make sure that the repayment schedule does not extend beyond 85 per cent of the economic life/concession period of the project; and

ix) This facility shall be available to a project only once and shall not be available during subsequent change in ownership, if any.

(d) Loans covered under this guideline shall attract provisioning as per the extant provisioning norms depending upon their asset classification status.

3.5. **Other Issues**

(i) Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, shall not be treated as restructuring if:

(a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

(b) The rise in cost excluding any cost-overrun in respect of the original project is 25 per cent or more of the original outlay.

(c) The NBFC re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.

(d) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

(ii) Project Loans for Commercial Real Estate

For CRE projects mere extension of DCCO shall not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO and there is no change in other terms and conditions except possible shift of the repayment schedule and servicing of the loan by equal or shorter duration compared to the period by which DCCO has been extended. Such CRE project loans shall be treated as standard assets in all respects for this purpose without attracting the higher provisioning applicable for restructured standard assets. However, the asset classification benefit shall not be available to CRE projects if they are restructured.

(iii) In all the above cases of restructuring where regulatory forbearance has been extended, the Boards of NBFCs shall satisfy themselves about the viability of the project and the restructuring plan.

3.6. **Income recognition**

(i) NBFCs shall recognise income on accrual basis in respect of the projects under implementation, which are classified as 'standard'.

(ii) NBFCs shall not recognise income on accrual basis in respect of the projects under implementation which are classified as a 'substandard' asset. NBFCs shall recognise income in such accounts only on realisation on cash basis.

Consequently, NBFCs which have wrongly recognised income in the past shall reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognised as income in the previous year(s). As regards the regulatory treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' NBFCs shall adopt the following:

(a) Funded Interest: Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring / rescheduling / renegotiation of terms of the loan agreement, shall be done strictly on cash basis, only on realisation and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognised as income, a provision for an equal amount shall also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognized as income, shall be fully provided for.

(b) Conversion into equity, debentures or any other instrument: The amount outstanding converted into other instruments shall normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision shall be made for the amount of income so recognised to offset the effect of such income recognition. Such provision shall be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments as per the valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified "current investment" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures shall be treated as NPA, ab initio, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm shall also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income shall be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument shall be recognised only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan shall also be subject to the usual prudential valuation norms as applicable to such instruments.

4. General Principles and Prudential Norms for Restructured Advances

The principles and prudential norms laid down in this paragraph shall be applicable to all advances.

4.1 **Eligibility criteria for restructuring of advances**

4.1.1 NBFCs may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.

4.1.2 NBFCs cannot reschedule/ restructure/ renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms shall continue to apply. The process of re- classification of an asset shall not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority shall be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it shall be a matter of supervisory concern.

4.1.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the NBFC in deserving cases subject to customer agreeing to the terms and conditions.

4.1.4 No account shall be taken up for restructuring by the NBFCs unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by NBFCs shall be treated as an attempt at ever greening a weak credit facility and shall invite supervisory concerns / action. NBFCs shall accelerate the recovery measures in respect of such accounts. The viability shall be determined by the NBFCs based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters can include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. As different sectors of economy have different performance indicators, it shall be desirable that NBFCs adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability shall be determined by the NBFCs based on the acceptable viability parameters and benchmarks for each parameter determined by them. The benchmarks for the viability parameters adopted by the CDR Mechanism are given in the Appendix-1. NBFCs shall suitably adopt them with appropriate adjustments, if any, for specific sectors while restructuring of accounts in non-CDR cases.

4.1.5 Borrowers indulging in frauds and malfeasance shall continue to remain ineligible for restructuring.

4.1.6 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism, the lead bank in the case of SME Debt Restructuring Mechanism and the individual NBFCs in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

4.2 **Asset classification norms**

Restructuring of advances shall take place in the following stages:

(a) before commencement of commercial production/ operation;

(b) after commencement of commercial production/ operation but before the asset has been classified as 'sub-standard';

(c) after commencement of commercial production/ operation and the asset has been classified as 'sub-standard' or 'doubtful'.

4.2.1 The accounts classified as 'standard assets' shall be immediately reclassified as 'sub-standard assets' upon restructuring.

4.2.2 The non-performing assets, upon restructuring, shall continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

4.2.3 Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the NBFC shall be upgraded only when all the outstanding loan/ facilities in the account perform satisfactorily during the 'specified period' (Appendix - 2), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

4.2.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account shall be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

4.2.5 Any additional finance shall be treated as 'standard asset' during the specified period (Appendix - 2) under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'substandard' and 'doubtful', interest income on the additional finance shall be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

4.2.6 If a restructured asset, which is a standard asset on restructuring is subjected to restructuring on a subsequent occasion, it shall be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion shall be allowed to be upgraded to standard category after the specified period (Appendix - 2) in terms of the current restructuring package, subject to satisfactory performance.

4.3 **Income recognition norms**

Subject to provisions of paragraphs 4.2.5, 5.2 and 6.2, interest income in respect of restructured accounts classified as 'standard assets' shall be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' shall be recognized on cash basis.

4.4 **Provisioning norms**

4.4.1 Provision on restructured advances

(i) NBFCs shall hold provision against the restructured advances as per the extant provisioning norms.

(ii) Restructured accounts classified as standard advances shall attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest/ principal after restructuring, such advances shall attract the prescribed higher provision for the period covering moratorium and two years thereafter.

(iii) Restructured accounts classified as non-performing advances, when upgraded to standard category shall attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

(iv) The above-mentioned higher provision on restructured standard advances shall be 5 per cent in respect of new restructured standard accounts (flow) with effect from January 24, 2014 and 5 per cent for the stock of restructured standard accounts as on January 23, 2014 with effect from March 31, 2017 (spread over the four quarters of 2016-17

4.4.2 Provision for diminution in the fair value of restructured advances

(i) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, shall result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the NBFC and shall have impact on the NBFC's market value. It is, therefore, necessary for NBFCs to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision shall be held in addition to the provisions as per existing provisioning norms as indicated in para 4.4.1 above, and in an account distinct from that for normal provisions.

For this purpose, the erosion in the fair value of the advance shall be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate i.e. the interest rate applicable to the borrower as per the loan agreement had the loan been serviced without any default, as applicable to the concerned borrower, as on the date of restructuring. Fair value of the loan after restructuring shall be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate as applicable to the borrower as on the date of restructuring.

The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and shall have to be followed consistently by NBFCs in future. Further, it is reiterated that the provisions required as above arise due to the action of the NBFCs resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

(ii) The amount of principal converted into debt/ equity instruments on restructuring shall be held under 'current investments' and valued as per usual valuation norms. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt/ equity has to be carried out separately. However, the total sacrifice involved for the NBFC would be NPV of the above portion plus valuation loss on account of conversion into debt / equity instruments.

NBFCs are therefore advised that they shall correctly capture the diminution in fair value of restructured accounts as it shall have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters (Ref. para 7.6). Further, there must not be any effort on the part of NBFCs to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering. NBFCs shall put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

(iii) In the event any security is taken in lieu of the diminution in the fair value of the advance, it shall be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

(iv) The diminution in the fair value shall be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in the bare lending rate as applicable to the borrower. Consequently, NBFCs shall provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(v) If due to lack of expertise / appropriate infrastructure, an NBFC finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, NBFCs shall have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five percent of the total exposure, in respect of all restructured accounts where the total dues to NBFC(s) are less than rupees one crore.

4.4.3 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100 per cent of the outstanding debt amount.

5. Prudential Norms for Conversion of Principal into Debt / Equity

5.1 **Asset classification norms**

A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt / equity instruments so created shall be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of these instruments shall also be determined based on the subsequent asset classification of the restructured advance.

5.2 **Income recognition norms**

5.2.1 ***Standard Accounts***

In the case of restructured accounts classified as 'standard', the income, if any, generated by these instruments shall be recognised on accrual basis.

5.2.2 ***Non- Performing Accounts***

In the case of restructured accounts classified as non-performing assets, the income, if any, generated by these instruments shall be recognised only on cash basis.

5.3 **Valuation and provisioning norms**

These instruments shall be held under 'current investments' and valued as per usual valuation norms. Equity classified as standard asset shall be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available, the shares are to be valued at Re.1. Equity instrument classified as NPA shall be valued at market value, if quoted, and in case where equity is not quoted, it shall be valued at Re.1.

Depreciation on these instruments shall not be offset against the appreciation in any other securities held under the 'current investment' category.

6. Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

6.1 Asset classification norms

The FITL / debt or equity instrument created by conversion of unpaid interest shall be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL / debt or equity instruments shall also be determined based on the subsequent asset classification of the restructured advance.

6.2 Income recognition norms

6.2.1 The income, if any, generated by these instruments shall be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.

6.2.2 The unrealised income represented by FITL / Debt or equity instrument shall have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalisation)".

6.2.3 In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation, not exceeding the amount of interest converted into equity.

6.2.4 Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received shall be recognised in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

6.3 Valuation & Provisioning norms

Valuation and provisioning norms shall be as per para 5.3 above. The depreciation, if any, on valuation shall be charged to the Sundry Liabilities (Interest Capitalisation) Account.

7. Miscellaneous

Following general conditions shall be applicable in all cases of restructuring:

7.1 The NBFCs shall decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the NBFCs shall have the right to convert a portion of the restructured amount into equity, keeping in view the relevant SEBI regulations.

7.2 Conversion of debt into preference shares shall be done only as a last resort and such conversion of debt into equity / preference shares shall, in any case, be restricted to a cap (say 10 per cent of the restructured debt). Further, any conversion of debt into equity shall be done only in the case of listed companies.

7.3 NBFCs may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to pre pay. Further, all restructuring packages must incorporate 'Right to recompense' clause and it shall be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount shall be recovered by the lenders and in cases where some facility under restructuring has been extended below bare lending rate, 100 per cent of the recompense amount shall be recovered.

7.4 As stipulating personal guarantee will ensure promoters' "skin in the game" or commitment to the restructuring package, promoters' personal guarantee shall be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.

7.5 All restructuring packages shall be required to be implemented in a time bound manner. All restructuring packages under CDR / JLF / Consortium / MBA arrangement shall be implemented within 90 days from the date of approval. Other restructuring packages shall be implemented within 120 days from the date of receipt of application by the NBFC.

7.6 Promoters must bring additional funds in all cases of restructuring. Additional funds brought by promoters shall be a minimum of 20 per cent of NBFCs' sacrifice or 2 per cent of the restructured debt, whichever is higher. The promoters' contribution shall invariably be brought upfront while extending the restructuring benefits to the borrowers. Promoter's contribution need not necessarily be brought in cash and can be brought in the form of conversion of unsecured loan from the promoters into equity;

7.7 NBFCs shall determine a reasonable time period during which the account is likely to become viable, based on the cash flow and the Techno Economic Viability (TEV) study;

7.8 NBFCs shall be satisfied that the post restructuring repayment period is reasonable, and commensurate with the estimated cash flows and required DSCR in the account as per their own Board approved policy.

7.9 Each NBFC shall clearly document its own due diligence done in assessing the TEV and the viability of the assumptions underlying the restructured repayment terms.

8. Disclosures

With effect from the financial year ending March 2014, NBFCs shall disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances as per the format given in Appendix - 4. The information shall be required for advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories separately. NBFCs must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means even if only one of the facilities / accounts of a borrower has been restructured, the NBFC shall also disclose the entire outstanding amount pertaining to all the facilities / accounts of that particular borrower. The disclosure format prescribed in Appendix - 4, inter-alia, includes the following:

i. details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);
ii. provisions made on restructured accounts under various categories; and
iii. details of movement of restructured accounts.

This implies that once the higher provisions on restructured advances (classified as standard either ab initio or on upgradation from NPA category) revert to the normal level on account of satisfactory performance during the prescribed period, such advances shall no longer be required to be disclosed by NBFCs as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, the provision for diminution in the fair value of restructured accounts on such restructured accounts shall continue to be maintained by NBFCs as per the existing instructions.

9**.** The CDR Mechanism will also be available to the corporates engaged in nonindustrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, NBFCs are also encouraged to strengthen the coordination among themselves / creditors in the matter of restructuring of consortium / multiple lending accounts, which are not covered under the CDR Mechanism.

It has been reiterated that the basic objective of restructuring is to preserve economic value of units, not ever-greening of problem accounts. This can be achieved by NBFCs and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages.

Appendix -1

Broad Benchmarks for the Viability Parameters

i. Return on capital employed shall be at least equivalent to 5 year Government security yield plus 2 per cent.

ii. The debt service coverage ratio shall be greater than 1.25 within the 5 years period in which the unit shall become viable and on year to year basis the ratio shall be above 1. The normal debt service coverage ratio for 10 years repayment period shall be around 1.33.

iii. The benchmark gap between internal rate of return and cost of capital shall be at least 1per cent.

iv. Operating and cash break even points shall be worked out and they shall be comparable with the industry norms.

v. Trends of the company based on historical data and future projections shall be comparable with the industry. Thus behaviour of past and future EBIDTA shall be studied and compared with industry average.

vi. Loan life ratio (LLR), as defined below shall be 1.4, which would give a cushion of 40 per cent to the amount of loan to be serviced.

$$\text{LLR} = \frac{\text{Present value of total available cash flow (ACF) during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

Appendix-2

Key Concepts

(i) Advances

The term 'Advances' shall mean all kinds of credit facilities including, term loans, bills discounted / purchased, factored receivables, etc. and investments other than that in the nature of equity.

(ii) Fully Secured

When the amounts due to an NBFC (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the NBFC's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities shall be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees shall be treated on par with tangible security.

(iii) Restructured Accounts

A restructured account is one where the NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the NBFC would not otherwise consider. Restructuring shall normally involve modification of terms of the advances/ securities, which shall generally include, among others, alteration of repayment period/ repayable amount/ the amount of instalments/ rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly shall not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, shall render the accounts to be classified as 'restructured accounts'.

In the cases of roll-over of short term loans, where proper pre-sanction assessment has been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these shall not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then third roll-over onwards the account shall be treated as a restructured account. Besides, NBFCs must be circumspect while granting such facilities as the borrower may be availing similar facilities from other banks/ creditors in the consortium or under multiple banking. Further, Short Term Loans for the purpose of this provision do not include properly assessed regular Working Capital Loans like revolving Cash Credit or Working Capital Demand Loans.

(iv) Repeatedly Restructured Accounts

When an NBFC restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

(v) SMEs

Small and Medium Enterprise (SME) is an undertaking defined in circular RPCD.PLNFS.BC.No.63.06.02/2006-07 dated April 4, 2007 amended from time to time.

(vi) Specified Period

Specified Period means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

(vii) Satisfactory Performance

Satisfactory performance during the specified period means adherence to the following conditions during that period.

Non-Agricultural Term Loan Accounts

In the case of non-agricultural term loan accounts, no payment shall remain overdue for a period of more than the number of days after which it would be classified as NPA. In addition there shall not be any overdues at the end of the specified period.

Note

(i) While extending repayment period in respect of housing loans to keep the EMI unchanged, NBFCs shall satisfy themselves about the revenue generation/ repaying capacity of the borrower during the entire repayment period including the extended repayment period.

(ii) NBFCs shall not extend the repayment period of such borrowers where they have concerns regarding the repaying capacity over the extended period, even if the borrowers want to extend the tenor to keep the EMI unchanged.

(iii) NBFCs shall provide the option of higher EMI to such borrowers who want to repay the housing loan as per the original repayment period.

Appendix-3

Organisational Framework for Restructuring of Advances Under Consortium/ Multiple Banking/ Syndication Arrangements

A. Corporate Debt Restructuring (CDR) Mechanism

1.1 **Objective**

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework shall aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

1.2 **Scope**

The CDR Mechanism has been designed to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank/ Financial Institution (FI) in a coordinated manner. The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one bank/ FI. This mechanism shall be available to all borrowers engaged in any type of activity subject to the following conditions:

a) The borrowers enjoy credit facilities from more than one bank/ FI under multiple banking/ syndication/ consortium system of lending.

b) The total outstanding (fund-based and non-fund based) exposure is ₹ 10 crore or above.

CDR system in the country shall have a three tier structure:

- CDR Standing Forum and its Core Group
- CDR Empowered Group
- CDR Cell

2. CDR Standing Forum

2.1 The CDR Standing Forum shall be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks shall participate in the system in their own interest. CDR Standing Forum shall be a self-empowered body, which shall lay down policies and guidelines, and monitor the progress of corporate debt restructuring.

2.2 The Forum shall also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

2.3 The CDR Standing Forum shall comprise of Chairman & Managing Director, Industrial Development Bank of India Ltd; Chairman, State Bank of India; Managing Director & CEO, ICICI Bank Limited; Chairman, Indian Banks' Association as well as Chairman and Managing Directors of all banks and financial institutions participating as permanent members in the system. Since institutions like Unit Trust of India, General Insurance Corporation, Life Insurance Corporation may have assumed exposures on certain borrowers, these institutions may participate in the CDR system. The Forum will elect its Chairman for a period of one year and the principle of rotation shall be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum. The RBI shall not be a member of the CDR Standing Forum and Core Group. Its role shall be confined to providing broad guidelines.

2.4 The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum shall also lay down the policies and guidelines including those relating to the critical parameters for restructuring (for example, maximum period for a unit to become viable under a restructuring package, minimum level of promoters' sacrifice etc.) to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and shall ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell. The CDR Standing Forum shall also formulate guidelines for dispensing special treatment to those cases, which are complicated and are likely to be delayed beyond the time frame prescribed for processing.

2.5 A CDR Core Group shall be carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group shall consist of Chief Executives of Industrial Development Bank of India Ltd., State Bank of India, ICICI Bank Ltd, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks' Association and Deputy Chairman of Indian Banks' Association representing foreign banks in India.

2.6 The CDR Core Group shall lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. These guidelines shall also suitably address the operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group shall also prescribe the PERT chart for processing of cases referred to the CDR system and decide on the modalities for enforcement of the time frame. The CDR Core Group shall also lay down guidelines to ensure that over-optimistic projections are not assumed while preparing/ approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports/ international cost competitiveness.

3. CDR Empowered Group

3.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. While the standing members shall facilitate the conduct of the Group's meetings, voting shall be in proportion to the exposure of the creditors only. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it shall have to be ensured that participating institutions / banks approve a panel of senior officers to represent them in the CDR Empowered Group and ensure that they depute officials only from among the panel to attend the meetings of CDR Empowered Group. Further, nominees who attend the meeting pertaining to one account shall invariably attend all the meetings pertaining to that account instead of deputing their representatives.

3.2 The level of representation of banks/ financial institutions on the CDR Empowered Group shall be at a sufficiently senior level to ensure that concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring. There shall be a general authorisation by the respective Boards of the participating institutions/ banks in favour of their representatives on the CDR Empowered Group, authorising them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporates.

3.3 The CDR Empowered Group shall consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package shall be worked out by the CDR Cell in conjunction with the Lead Institution. However, if the lead institution faces difficulties in working out the detailed restructuring package, the participating banks/ financial institutions shall decide upon the alternate institution/ bank which shall work out the detailed restructuring package at the first meeting of the Empowered Group when the preliminary report of the CDR Cell comes up for consideration.

3.4 The CDR Empowered Group shall be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the Empowered Group. The CDR Empowered Group shall decide on the acceptable viability benchmark levels on the following illustrative parameters, which shall be applied on a case-by-case basis, based on the merits of each case :

- Return on Capital Employed (ROCE),
- Debt Service Coverage Ratio (DSCR),
- Gap between the Internal Rate of Return (IRR) and the Cost of Fund (CoF),
- Extent of sacrifice.

3.5 The Board of each bank/ FI shall authorise its Chief Executive Officer (CEO) and/ or Executive Director (ED) to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs. CDR Empowered Group shall meet on two or three occasions in respect of each borrowal account. This shall provide an opportunity to the participating members to seek proper authorisations from their CEO / ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him / her.

3.6 The decisions of the CDR Empowered Group shall be final. If restructuring of debt is found to be viable and feasible and approved by the Empowered Group, the company shall be put on the restructuring mode. If restructuring is not found viable, the creditors shall then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

4. CDR Cell

4.1 The CDR Standing Forum and the CDR Empowered Group shall be assisted by a CDR Cell in all their functions. The CDR Cell shall make the initial scrutiny of the proposals received from borrowers/ creditors, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible. If found feasible, the CDR Cell shall proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.

4.2 All references for corporate debt restructuring by creditors or borrowers shall be made to the CDR Cell. It shall be the responsibility of the lead institution/ major stakeholder to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month. The CDR Cell shall prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days. However, for sufficient reasons the period can be extended up to a maximum of 180 days from the date of reference to the CDR Cell.

4.3 The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd. However, it may be shifted to another place if considered necessary, as shall be decided by the Standing Forum. The administrative and other costs shall be shared by all financial institutions and banks. The sharing pattern shall be as determined by the Standing Forum.

4.4 CDR Cell shall have adequate members of staff deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The cost in operating the CDR mechanism including CDR Cell shall be met from contribution of the financial institutions and banks in the Core Group at the rate of ₹50 lakh each and contribution from other institutions and banks at the rate of ₹5 lakh each.

5. Other features

5.1 Eligibility criteria

5.1.1 The scheme shall not apply to accounts involving only one financial institution or one bank. The CDR mechanism shall cover only multiple banking accounts / syndication / consortium accounts of corporate borrowers engaged in any type of activity with outstanding fund-based and non-fund based exposure of ₹10 crore and above by banks and institutions.

5.1.2 The Category 1 CDR system shall be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard' / 'substandard' in the books of at least 90 per cent of creditors (by value), the same shall be treated as standard / substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10 per cent of creditors. There shall be no requirement of the account / company being sick, NPA or being in default for a specified period before reference to the CDR system. However, potentially viable cases of NPAs will get priority. This approach shall provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent.

5.1.3 While corporates indulging in frauds and malfeasance even in a single bank shall continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group shall review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases shall be admitted for restructuring with the approval of the Core Group only. The Core Group shall ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

With a view to preserve the economic value of viable accounts, it has been decided that in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, NBFCs and JLF shall take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters / management. Further, such accounts shall also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in Circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015 on "Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)". Each NBFC shall formulate its policy and requirements as approved by the Board, on restructuring of such assets.

5.1.4 The accounts where recovery suits have been filed by the creditors against the company, shall be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75 per cent of the creditors (by value) and 60 per cent of creditors (by number).

5.1.5 BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases shall be eligible for restructuring under the CDR system if specifically recommended by the CDR Core Group. The Core Group shall recommend exceptional BIFR cases on a case-to-case basis for consideration under the CDR system. It shall be ensured that the lending institutions complete all the formalities in seeking the approval from BIFR before implementing the package.

5.2 **Reference to CDR system**

5.2.1 Reference to Corporate Debt Restructuring System could be triggered by (i) any or more of the creditor who have minimum 20 per cent share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

5.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks/ FIs shall review all eligible cases where the exposure of the financial system is more than ₹100 crore and decide about referring the case to CDR system or to proceed under the new Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 or to file a suit in DRT etc.

5.3 **Legal Basis**

5.3.1 CDR is a non-statutory mechanism which is a voluntary system based on Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). The Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) shall provide the legal basis to the CDR mechanism. The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines. The ICA signed by the creditors shall be initially valid for a period of 3 years and subject to renewal for further periods of 3 years thereafter. The lenders in foreign currency outside the country are not a part of CDR system. Such creditors and also creditors like GIC, LIC, UTI, etc., who have not joined the CDR system, could join CDR mechanism of a particular corporate by signing transaction to transaction ICA, wherever they have exposure to such corporate.

5.3.2 The Inter-Creditor Agreement shall be a legally binding agreement amongst the creditors, with necessary enforcement and penal clauses, wherein the creditors shall commit themselves to abide by the various elements of CDR system. Further, the creditors shall agree that if 75 per cent of creditors by value and 60 per cent of the creditors by number, agree to a restructuring package of an existing debt (i.e., debt outstanding), the same shall be binding on the remaining creditors. Since Category 1 CDR Scheme covers only standard and substandard accounts, which in the opinion of 75 per cent of the creditors by value and 60 per cent of creditors by number, are likely to become performing after introduction of the CDR package, it is expected that all other creditors (i.e., those outside the minimum 75 per cent by value and 60 per cent by number) shall be willing to participate in the entire CDR package, including the agreed additional financing.

5.3.3 In order to improve effectiveness of the CDR mechanism a clause shall be incorporated in the loan agreements involving consortium/ syndicate accounts whereby all creditors, including those which are not members of the CDR mechanism, agree to be bound by the terms of the restructuring package that shall be approved under the CDR mechanism, as and when restructuring may become necessary.

5.3.4 One of the most important elements of Debtor-Creditor Agreement shall be 'stand still' agreement binding for 90 days, or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still' whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period, this shall be necessary for enabling the CDR

System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause shall be applicable only to any civil action either by the borrower or any lender against the other party and shall not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., shall be crystallised, provided the borrower is agreeable to such crystallisation. The borrower shall additionally undertake that during the stand-still period the documents shall stand extended for the purpose of limitation and also that it shall not approach any other authority for any relief and the directors of the borrowing company shall not resign from the Board of Directors during the stand-still period.

5.4 **Sharing of Additional finance**

5.4.1 Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. In case for any internal reason, any creditor (outside the minimum 75 per cent and 60 per cent) does not wish to commit additional financing, that creditor shall have an option in accordance with the provisions of para 5.6.

5.4.2 The providers of additional finance, whether existing creditors or new creditors, shall have a preferential claim, to be worked out under the restructuring package, over the providers of existing finance with respect to the cash flows out of recoveries, in respect of the additional exposure

5.5 **Exit Option**

5.5.1 As stated in para 5.4.1 a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance shall have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred interest as mentioned above, without compounding, shall be payable along with the last instalment of the principal due to the creditor.

5.5.2 In addition, the exit option shall also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders shall be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

5.5.3 The lenders who wish to exit from the package shall have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which shall be decided mutually between the exiting lender and the taking over lender. The new lenders shall rank on par with the existing lenders for repayment and servicing of the dues since they have taken over the existing dues to the exiting lender.

5.5.4 In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS shall not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS shall be factored into the restructuring package.

5.6 **Category 2 CDR System**

5.6.1 There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75 per cent of creditors (by value) and 60 per cent creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions :

(i) It shall not be binding on the creditors to take up additional financing worked out under the debt restructuring package and the decision to lend or not to lend shall depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing loans shall only be restructured and it shall be up to the promoter to firm up additional financing arrangement with new or existing creditors individually.

(ii) All other norms under the CDR mechanism such as the standstill clause, asset classification status during the pendency of restructuring under CDR, etc., shall continue to be applicable to this category also.

5.6.2 No individual case shall be referred to RBI. CDR Core Group shall take a final decision whether a particular case falls under the CDR guidelines or it does not.

5.6.3 All the other features of the CDR system as applicable to the First Category shall also be applicable to cases restructured under the Second Category.

5.7 **Incorporation of 'right to recompense' clause**

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. All restructuring packages must incorporate 'Right to recompense' clause and it shall be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount shall be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount shall be recovered.

B SME Debt Restructuring Mechanism

Apart from CDR Mechanism, there exists a much simpler mechanism for restructuring of loans availed by Small and Medium Enterprises (SMEs). Unlike in the case of CDR Mechanism, the operational rules of the mechanism have been left to be formulated by the lender concerned. This mechanism shall be applicable to all the borrowers which have funded and non-funded outstanding up to ₹10 crore under multiple / consortium banking arrangement. Major elements of this arrangements are as under:

(i) Under this mechanism, the lender shall formulate, with the approval of their Board of Directors, a debt restructuring scheme for SMEs within the prudential norms laid down by RBI. The lender shall frame different sets of policies for borrowers belonging to different sectors within the SME if they so desire.

(ii) While framing the scheme, the lender shall ensure that the scheme is simple to comprehend and shall, at the minimum, include parameters indicated in these guidelines.

(iii) The main plank of the scheme is that the lender with the maximum outstanding shall work out the restructuring package, along with the lender having the second largest share.

(iv) The lender shall work out the restructuring package and implement the same within a maximum period of 90 days from date of receipt of requests.

(v) The SME Debt Restructuring Mechanism shall be available to all borrowers engaged in any type of activity.

(vi) Lenders shall review the progress in rehabilitation and restructuring of SMEs accounts on a quarterly basis and keep the Board informed.

Appendix 4

Disclosure of Restructured Accounts

Sl. No.	Type of Restructuring		Under CDR Mechanism					Under SME Debt Restructuring Mechanism					Others					Total				
	Asset Classification		Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
	Details																					
1	Restructured Accounts as on April 1 of the FY (opening figures)*	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
2	Fresh restructuring during the year	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
3	Upgradations to	No. of borrowers																				

	restructured standard category during the FY	Amount outstanding																				
		Provision thereon																				
4	Restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
5	Downgradations of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
6	Write-offs of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				

7	Restructured Accounts as on March 31 of the FY (closing figures*)	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
* Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).																						

Annex VII

Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries

1. The long tenor loans to infrastructure / core industries projects, say 25 years, shall be structured as under:

i. The fundamental viability of the project shall be established on the basis of all requisite financial and non-financial parameters, especially the acceptable level of interest coverage ratio (EBIDTA / Interest payout), indicating capacity to service the loan and ability to repay over the tenor of the loan;

ii. Allowing longer tenor amortisation of the loan (Amortisation Schedule), say 25 years (within the useful life / concession period of the project) with periodic refinancing (Refinancing Debt Facility) of balance debt, the tenor of which shall be fixed at the time of each refinancing, within the overall amortisation period;

iii. This shall mean that the NBFC, while assessing the viability of the project, would be allowed to accept the project as a viable project where the average debt service coverage ratio (DSCR) and other financial and non-financial parameters are acceptable over a longer amortisation period of say 25 years (Amortisation Schedule), but provide funding (Initial Debt Facility) for only, say, 5 years with refinancing of balance debt being allowed by existing or new lenders (Refinancing Debt Facility) or even through bonds; and

iv. The refinancing (Refinancing Debt Facility) after each of these 5 years shall be of the reduced amounts determined as per the Original Amortisation Schedule.

2. NBFC shall finance fresh long term projects in infrastructure and core industries as suggested in paragraph 1 above provided that:

i. Only term loans to infrastructure projects, as defined under the Harmonised Master List of Infrastructure of RBI, and projects in core industries sector, included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India, (viz., coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel (Alloy + Non Alloy), cement and electricity- some of these sectors such as fertilisers, electricity generation, distribution and transmission, etc. are also included in the Harmonised Master List of Infrastructure sub-sectors)- shall qualify for such refinancing;

ii. At the time of initial appraisal of such projects, NBFC shall fix an amortisation schedule (Original Amortisation Schedule) while ensuring that the cash flows from such projects and all necessary financial and non-financial parameters are robust even under stress scenarios;

iii. The tenor of the Amortisation Schedule shall not be more than 80 per cent (leaving a tail of 20 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 80 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects;

iv. The NBFC offering the Initial Debt Facility shall sanction the loan for a medium term, say 5 to 7 years. This is to take care of initial construction period and also cover the period at least up to the date of commencement of commercial operations (DCCO) and revenue ramp up. The repayment(s) at the end of this period (equal in present value to the remaining residual payments corresponding to the Original Amortisation Schedule) shall be structured as a bullet repayment, with the intent specified up front that it shall be refinanced. That repayment shall be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as Refinancing Debt Facility, and such refinancing shall repeat till the end of the Amortisation Schedule;

v. The repayment schedules of Initial Debt Facility shall normally correspond to the Original Amortisation Schedule, unless there is an extension of DCCO. In that case, in terms of extant instructions contained in DNBS.CO.PD.No.367/03.10.01/2013-14, dated January 23, 2014 and DNBR.CO.PD.No. 011/03.10.01/2014-15, dated January 16, 2015, mere extension of DCCO shall not be considered as restructuring subject to certain conditions, if the revised DCCO falls within the period of two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively. In such cases the consequential shift in repayment schedule by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO shall also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged or are enhanced to compensate for the delay and the entire project debt amortisation is scheduled within 85 per cent (Refer Note 1 below)of the initial economic life of the project as prescribed in paragraph 2(iii) above;

vi. The Amortisation Schedule of a project loan shall be modified once during the course of the loan (after DCCO) based on the actual performance of the project in comparison to the assumptions made during the financial closure without being treated as ‘restructuring’ provided:

a) The loan is a standard loan as on the date of change of Amortisation Schedule;

b) Net present value of the loan remains the same before and after the change in Amortisation Schedule; and

c) The entire outstanding debt amortisation is scheduled within 85 per cent (refer note 2 below) of the economic life of the project as prescribed in paragraph 2 (iii) above;

vii. If the Initial Debt Facility or Refinancing Debt Facility becomes NPA at any stage, further refinancing shall stop and the NBFC which holds the loan when it becomes NPA, shall be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it shall be eligible for refinancing in terms of these instructions;

viii. NBFCs shall determine the pricing of the loans at each stage of sanction of the Initial Debt Facility or Refinancing Debt Facility, commensurate with the risk at each phase of the loan, and such pricing shall be as per the rate approved by its Board;

ix. NBFCs shall secure their interest by way of proper documentation and security creation, etc;

x. NBFCs shall be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs shall be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

xi. NBFCs shall recognise from a risk management perspective that there will be a probability that the loan shall not be refinanced by other NBFCs/lenders, and shall take this into account when estimating liquidity needs as well as stress scenarios. Further, unless the part or full refinancing by other NBFCs/lenders is clearly identified, the cash flows from such refinancing shall not be taken into account for computing liquidity ratios. Similarly, once committed, the refinancing NBFC/lender shall take into account such cash flows for computing their liquidity ratios; and

xii. NBFCs shall have a Board approved policy for such financing.

3. Further, NBFCs may also flexibly structure the existing project loans to infrastructure projects and core industries projects with the option to periodically refinance the same as per the norms given below:

i) Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds ₹500 crore, in the infrastructure sector (as defined under the Harmonised Master List of Infrastructure of RBI) and in the core industries sector (included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India) shall qualify for such flexible structuring and refinancing;

ii) NBFCs shall fix a Fresh Loan Amortisation Schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

a. The loan is a standard loan as on the date of change of Loan Amortisation Schedule;

b. Net present value of the loan remains same before and after the change in Loan Amortisation Schedule;

c. The Fresh Loan Amortisation Schedule shall be within 85 per cent (leaving a tail of 15 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and

d. The viability of the project is reassessed by the NBFC and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy dated March 21, 2014.

iii) If a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para 3(ii) above, while the current exercise of fixing the Fresh Loan Amortisation Schedule shall not be treated as an event of 'repeated restructuring', the loan shall continue to be classified as 'restructured standard' asset. Upgradation of such assets shall be governed by the extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

iv) Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule shall be governed by the extant restructuring norms;

v) NBFCs may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) shall be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance shall be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as refinancing debt facility, and such refinancing shall repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at paragraph 3(ii) shall not be applicable at the time of periodic refinancing of the project term loan;

vi) If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing shall stop and the NBFC which holds the loan when it becomes NPA shall be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it shall be eligible for refinancing in terms of these instructions;

vii) NBFCs shall determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing shall be as per the rate approved by the Board;

viii) NBFCs shall secure their interest by way of proper documentation and security creation, etc.;

ix) NBFCs shall be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs shall be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

x) NBFCs shall recognise from a risk management perspective that there shall be a probability that the loan shall not be refinanced by other lenders, and shall take this into account when estimating liquidity needs as well as stress scenarios; and

xi) NBFCs shall have a Board approved policy for such financing.

4. It is clarified that NBFCs may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as ‘NPAs’. However, such an exercise shall be treated as ‘restructuring’ and the assets shall continue to be treated as ‘NPA’. Such accounts shall be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the ‘specified period’ (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility shall be permitted only when the account is classified as ‘standard’ as prescribed in the para 3(vi) above.

5. It is reiterated that the exercise of flexible structuring and refinancing shall be carried out only after DCCO. Further, one of the conditions (para 7.2.2. (iii) of Annex-2 of Notification No.DNBS(PD). No.272/CGM(NSV)-2014, dated January 23, 2014, viz., “The repayment period of the restructured advance including the moratorium, if any, shall not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.”) for availing special asset benefits under restructuring guidelines shall cease to be applicable on any loan to infrastructure and core industries project covered under the ambit of this circular.

6. RBI will review these instructions at periodic intervals.

Notes:

1 A relaxation of only 5% of initial economic life is provided in case of delay in achieving DCCO from the 80% ceiling of amortisation of project debt prescribed in paragraph 2(iii). NBFCs may factor the same while determining Original Amortisation Schedule

2 Refer to Foot Note 1 above

Annex X

Self – Regulatory Organization (SRO) for NBFC-MFIs – Criteria for Recognition

ii. The SRO shall have at least 1/3rd of the NBFC-MFIs registered as its members, at the time of recognition.

iii. It shall have adequate capital to be able to discharge its functions without being overly dependent on subscription from members.

iv. The memorandum / bye laws of the Self-Regulatory Organization (SRO) shall specify criteria for admission of members and the functions it shall discharge, as one of its main objects;

v. The Memorandum / bye laws of an SRO shall provide for the manner in which the Governing Body / Board of Directors of the SRO would function.

vi. The Board shall have adequate representation from both large and small NBFC-MFIs.

vii. 1/3rd of the Board of Directors shall be independent and not associated with member institutions.

viii. The Board of Directors and individuals comprising the management shall be considered fit and proper, by the Reserve Bank.

ix. It shall have adequate internal controls in place.

x. The SRO shall function in the interest of all the stake holders and not seen to be only an industry body.

xi. The SRO shall frame a Code of Conduct to be followed by its members.

xii. It shall have a Grievance Redressal Mechanism and a Dispute Resolution Mechanism in place, including a specially appointed Grievance Redressal Nodal Officer.

xiii. It shall be in a position to exercise surveillance over its members to ensure compliance with the Code of Conduct and regulatory prescriptions of the Bank through an Enforcement Committee

xiv. It shall also have a developmental function of training and awareness programmes for its members, for the Self Help Groups and conduct research and development for the growth of the MFI sector

Obligations of the SRO towards the Reserve Bank

i) The SRO, once recognized, shall need to nominate a Compliance officer who shall directly report to the Reserve Bank and who shall keep the Reserve Bank regularly posted of all developments in the sector.

ii) The SRO shall have to submit its Annual Report to the Reserve Bank.

iii) It shall have to conduct investigation into areas of concern as pointed out by the Reserve Bank.

iv) The SRO shall inform the Reserve Bank of the violations of the provisions of the RBI Act,1934, the directions, the circulars or the guidelines issued by the Reserve Bank from time to time, by any of its members.

v) It shall provide information, including data, to the Reserve Bank periodically or as requested for by the Bank.

vi) The Reserve Bank shall, if need arises, inspect the books of the SRO or arrange to have the books inspected by an audit firm.

Annex XI

Annex XI (1)

INFORMATION ABOUT THE PROPOSED PROMOTERS / DIRECTORS /SHAREHOLDERS OF THE COMPANY

Sr. No.	Particulars Required	Response
1	Name	
2	Designation	Chairman / Managing Director / Director / Chief Executive Officer
3	Nationality	
4	Age (to be substantiated with date of birth)	
5	Business Address	
6	Residential Address	
7	E-mail address / Telephone number	
8	PAN Number under Income Tax Act	
9	Director Identification Number (DIN)	
10	Social security number / Passport No.*	
11	Educational / professional qualifications	
12	Professional Achievement relevant to the job	
13	Line of business or vocation	
14	Any other information relevant to the Company	
15	Name/s of other companies in which the person has held the post of Chairman / Managing Director/ Director / Chief Executive Officer	
16	Name/s of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator) of the entities mentioned in which the persons hold directorships	
17	Name/s of the NBFCs, if any, with which the person is associated as Promoter, Managing Director, Chairman or Director including a Residuary Non-Banking Financial Company, which has been prohibited from accepting deposits/ prosecuted by RBI ?	
18	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the person and/or against any of the entities he is associated with for violation of economic laws and regulations	
19	Cases, if any, where the person or relatives of the person or the companies in which the person is associated with, are in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
20	If the person is a member of a professional association/ body, details of disciplinary	

	action, if any, pending or commenced or resulting in conviction in the past against him / her or whether he / she has been banned from entry of any professional occupation at any time	
21	Whether the person attracts any of the disqualification envisaged under section 164 of the Companies Act, 2013	
22	Has the person or any of the companies, he/ she is associated with, been subject to any investigation at the instance of the Government Department or Agency	
23	Has the person at any time been found guilty of violations of rules / regulations / legislative requirements by Customs / Excise / Income Tax// Foreign Exchange / Other Revenue Authorities, if so, give particulars	
24	Experience in the business of NBFC (number of years)	
25	Equity shareholding in the company	
(i)	No. of shares	……………………………
(ii)	Face value	₹……………………..
(iii)	Percentage to total paid up equity share capital of the company	……………………………
26	Name/s of the companies, firms and proprietary concerns in which the person holds substantial interest	
27	Names of the principal bankers to the concerns at 26 above	
28	Names of the overseas bankers *	
29	Whether number of directorships held by the person exceeds the limits prescribed under section 165 of the Companies Act, 2013	
		Signature :
	Date :	Name :
	Place:	Designation :
		Company Seal :

*** For foreign promoters / directors / shareholders**
Note: (i) Separate form shall be submitted in respect of each of the proposed promoters/ directors/ shareholders

Annex XI (2)

INFORMATION ABOUT CORPORATE PROMOTER

Sr. No.	Particulars Required	Response
1	Name	
2	Business Address	
3	E-mail address / Telephone number	
4	PAN Number under Income Tax Act	
5	Name and contact details of compliance officer	
6	Line of business	
7	The details of their major shareholders (more than 10%) and line of activity, if corporates	
8	Names of the principal bankers/ overseas bankers *	
9	Name/s of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator)	
10	Name/s of Company/ies in the Group as defined in the Prudential Norms Directions	
11	Name/s of the company/ies in the Group that are NBFCs	
12	Specify the names of companies in the group which have been prohibited from accepting deposits/ prosecuted by RBI?	
13	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the corporate for violation of economic laws and regulations	
14	Cases, if any, where the corporate, is in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
15	Whether the corporate has been subject to any investigation at the instance of the Government Department or Agency	
16	Has the Corporate at any time been found guilty of violations of rules/ regulations/ legislative requirements by Customs/ Excise/ Income Tax// Foreign Exchange/ Other Revenue Authorities, if so, give particulars	
17	Has the promoter corporate/ majority shareholder of the promoter corporate, if a corporate, ever applied to RBI for CoR which has been rejected	
		Signature :
	Date :	Name :
	Place:	Designation :
		Company Seal :
*** For foreign corporate**		

Annex XII

<u>Guidelines for Entry of NBFCs into Insurance</u>

1. NBFCs registered with the Bank shall undertake insurance agency business on fee basis and without risk participation, without the approval of the Bank, only subject to the following conditions:

(i) The NBFCs shall obtain requisite permission from IRDA and comply with the IRDA regulations for acting as `composite corporate agent' with insurance companies.

(ii) The NBFCs shall not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the NBFC. The customers shall be allowed to exercise their own choice.

(iii) As the participation by an NBFC's customer in insurance products is purely on a voluntary basis, it shall be stated in all publicity material distributed by the NBFC in a prominent way. There shall be no `linkage' either direct or indirect between the provision of financial services offered by the NBFC to its customers and use of the insurance products.

(iv) The premium shall be paid by the insured directly to the insurance company without routing through the NBFC.

(v) The risks, if any, involved in insurance agency shall not get transferred to the business of the NBFC.

2. No NBFC shall be allowed to conduct such business departmentally. A subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of a non-banking financial institution or banking business shall not normally be allowed to join the insurance company on risk participation basis.

3. All NBFCs registered with RBI which satisfy the eligibility criteria given below shall be permitted to set up a joint venture company for undertaking insurance business with risk participation subject to safeguards. The maximum equity contribution such an NBFC can hold in the joint venture company shall normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Bank may permit

a higher equity contribution by a promoter NBFC initially, pending divestment of equity within the prescribed period [see Note (1) below].

In case more than one company (irrespective of doing financial activity or not) in the same group of the NBFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 percent prescribed for the NBFC in an insurance JV.

In cases where IRDA issues calls for capital infusion into the Insurance JV company, the Bank may, on a case to case basis, consider need based relaxation of the 50% group limit as specified. The relaxation, if permitted, shall be subject to compliance by the NBFC with all regulatory conditions as prescribed for in these Directions and such other conditions as may be necessary in the specific case. Application for such relaxation along with supporting documents shall be submitted by the NBFC to the Regional Office of the Bank under whose jurisdiction its registered office is situated.

The eligibility criteria for joint venture participant shall be as stated below:

(i) The owned fund of the NBFC shall not be less than ₹500 crore,

(ii) The CRAR of the NBFC shall be not less than 15 percent..

(iii) The level of net non-performing assets shall be not more than 5% of the total outstanding leased/hire purchase assets and advances taken together,

(iv) The NBFC shall have net profit for the last three continuous years,

(v) The track record of the performance of the subsidiaries, if any, of the concerned NBFC shall be satisfactory,

(vi) Regulatory compliance and servicing public deposits, if held.

The provisions of RBI Act shall be applicable for such investments while computing the net owned funds of the NBFC.

4. In case where a foreign partner contributes 26 per cent of the equity with the approval of insurance Regulatory and Development Authority/ Foreign Investment Promotion Board, more than one NBFC may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk,

only those NBFCs which satisfy the criteria given in paragraph 3 above, shall be eligible.

5. NBFCs registered with RBI which are not eligible as joint venture participant, as above can make investments up to 10 per cent of the owned fund of the NBFC or ₹50 crore, whichever is lower, in the insurance company. Such participation shall be treated as an investment and shall be without any contingent liability for the NBFC. The eligibility criteria for these NBFCs shall be as under:

(i) The CRAR of the NBFCs shall not be less than 15 per cent;

(ii) The level of net NPA shall be not more than 5 per cent of total outstanding leased/hire purchase assets and advances;

(iii) The NBFC shall have net profit for the last three continuous years.

Notes :

(1) Holding of equity by a promoter NBFC in an insurance company or participation in any form in insurance business shall be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

(2) The eligibility criteria shall be reckoned with reference to the latest available audited balance sheet for the previous year.

Annex XIII

Guidelines on issue of Co-Branded Credit Cards

In order to strengthen the NBFC sector by allowing diversification of their area of business, it has been decided to allow NBFCs, selectively, registered with the Reserve Bank of India to issue co-branded credit cards with scheduled commercial banks, without risk sharing, with prior approval of the Reserve Bank, for an initial period of two years and a review thereafter. NBFCs fulfilling the following minimum requirements are eligible to apply for issuance of co-branded credit card:

(i) Minimum net owned fund of ₹100 crore;

(ii) The company shall have made net profit as per last two years audited accounts;

(iii) The percentage of net NPAs to net advances of the NBFC as per the last audited balance sheet shall not be more than 3 per cent;

(iv) The non-deposit-taking NBFCs (NBFCs-ND) shall maintain a Leverage Ratio of 7. While systemically important non-deposit taking NBFCs (NBFCs-ND-SIs) and deposit taking NBFCs (NBFC-D) shall have CRAR of 15 per cent.

2. In addition, the NBFCs shall be required to adhere to the following stipulations:

(i) **Operational Aspects**

(a) The role of the NBFC under the tie-up arrangement shall be limited only to marketing and distribution of the co-branded credit cards. The co-branded credit card issuing bank shall be subject to all the instructions / guidelines issued by its concerned regulatory authority.

(b) The co-branded credit card issuing bank shall be solely responsible for fulfillment of KYC requirements in respect of all co-branded cards issued under the tie-up arrangement.

(c) The risks, if any, involved in co-branded credit cards business shall not get transferred to the business of the NBFC;

(d) The co-branded credit card account shall be maintained by the customer with the bank and all the payments by the co-branded card holders shall be in the name of the bank; account if any maintained by the user with the

NBFC shall not be debited for settlement of dues arising out of co-branded credit card;

(e) The NBFC entering into tie-up shall be guided by the need to ensure confidentiality of the customer's accounts. The co-branding NBFC shall not reveal any information relating to customers obtained at the time of opening the account and the co-branded credit card issuing bank shall not be permitted to access any details of customers' accounts that may violate NBFCs' secrecy obligations.

(f) The bank issuing the card shall put in place suitable mechanism for the redressal of customer grievances. Customer complaints arising out of deficiency in the credit card service shall be the responsibility of the bank.

(g) Legal risk, if any, arising out of court cases, damages, etc shall be borne by the issuing bank.

(ii) **Other Aspects**

(a) The NBFC shall have put in place guidelines on fair practices code as required in terms of these Directions;

(b) The NBFC shall be adhering to Know Your Customer Guidelines and provisions of Prevention of Money Laundering Act;

(c) The NBFC shall be complying with other instructions and provisions of RBI Act, 1934 to the extent applicable to the NBFC concerned;

(d) The NBFC shall comply with other terms and conditions as the Bank may specify in this behalf from time to time.

3. Further, the permission is liable to be withdrawn with a notice period of 3 months in the event of any undesirable / unhealthy operations coming to the notice of the Bank.

Annex XIV

Guidelines on Distribution of Mutual Fund Products by NBFCs

1. NBFCs, which desire to distribute mutual funds, shall be required to adhere to the following stipulations:

(i) Operational Aspects

(a) The NBFC shall comply with the SEBI guidelines/ regulations, including its code of conduct, for distribution of mutual fund products;

(b) the NBFC shall not adopt any restrictive practice of forcing its customers to go in for a particular mutual fund product sponsored by it. Its customers shall be allowed to exercise their own choice;

(c) the participation by the NBFCs customers in mutual fund products is purely on a voluntary basis and this information shall be stated in all publicity material distributed by it in a prominent way. There shall be no 'linkage' either direct or indirect between the provisions of financial services offered by the NBFC to its customers and distribution of the mutual fund products;

(d) the NBFC shall only act as an agent of its customers, forwarding their applications for purchase/ sale of MF units together with the payment instruments, to the Mutual Fund/ the Registrars/ the transfer agents. The purchase of units shall be at the customers' risk and without the NBFC guaranteeing any assured return;

(e) the NBFC shall neither acquire units of mutual funds from the secondary market for sale to its customers, nor shall it buy back units of mutual funds from its customers;

(f) in case the NBFC is holding custody of MF units on behalf of its customers, it shall ensure that its own investments and the investments belonging to its customers are kept distinct from each other.

(ii) Other Aspects

(a) The NBFC shall have put in place a comprehensive Board approved policy regarding undertaking mutual funds distribution. The services relating to the same shall be offered to its customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal mechanism. The code of conduct prescribed by SEBI, as amended from time to time and as applicable, shall be complied with by NBFCs undertaking these activities;

(b) the NBFC shall be adhering to Know Your Customer (KYC) Guidelines and provisions of Prevention of Money Laundering Act.

2. NBFCs shall comply with other terms and conditions as the Bank may specify in this regard from time to time.

Annex XV

Guidelines for Credit Default Swaps - NBFCs as users

Definitions The following definitions are used in these guidelines:

(i) Credit event payment – the amount which is payable by the credit protection seller to the credit protection buyer under the terms of the credit derivative contract following the occurrence of a credit event. The payment shall be only in the form of physical settlement (payment of par in exchange for physical delivery of a deliverable obligation).

(ii) Underlying asset / obligation – The asset[30] which a protection buyer is seeking to hedge. (iii) Deliverable asset/ obligation – any obligation[31] of the reference entity which shall be delivered, under the terms of the contract, if a credit event occurs. (Assets under (iii) above, will rank at least pari-passu or junior to the underlying obligation).

(iv) Reference obligation - the obligation[32] used to calculate the amount payable when a credit event occurs under the terms of a credit derivative contract. [A reference obligation is relevant for obligations that are to be cash settled (on a par-less-recovery basis).]

2. Operational requirements for CDS

a) A CDS contract shall represent a direct claim on the protection seller and shall be explicitly referenced to specific exposure, so that the extent of the cover is clearly defined and incontrovertible.

b) Other than non-payment by a protection buyer of premium in respect of the credit protection contract, it shall be irrevocable.

c) There shall be no clause in the contract that shall allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.

d) The CDS contract shall be unconditional; there shall be no clause in the protection contract outside the direct control of the NBFC that could prevent the protection seller from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

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[30] Please refer to paragraph 2.4 of the circular IDMD.PCD.No. 5053 /14.03.04/2010-11 dated May 23, 2011.

[31] For the present, only deliverable obligation permitted in terms of guidelines on CDS vide circular IDMD.PCD.No. 5053 /14.03.04/2010-11 dated May 23, 2011.

[32] Please refer to paragraph 2.4 of the circular IDMD.PCD.No. 5053 /14.03.04/2010-11 dated May 23, 2011.

e) The credit events specified by the contracting parties shall at a minimum cover:

(i) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);

(ii) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and

(iii) restructuring of the underlying obligation (as contemplated in the guidelines on CDS issued vide Circular No. IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011) involving forgiveness or postponement of principal, interest or fees that results in a credit loss event;

(iv) when the restructuring of the underlying obligation is not covered by the CDS, but the other requirements in paragraph 2 are met, partial recognition of the CDS shall be allowed. If the amount of the CDS is less than or equal to the amount of the underlying obligation, 60% of the amount of the hedge can be recognised as covered. If the amount of the CDS is larger than that of the underlying obligation, then the amount of eligible hedge is capped at 60% of the amount of the underlying obligation.

f) If the CDS specifies deliverable obligations that are different from the underlying obligation, the resultant asset mismatch shall be governed under paragraph (j).

g) The CDS shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay[33] .

h) If the protection buyer's right/ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld.

i) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the sole

[33] Definition of maturity – the maturity of the underlying exposure and the maturity of the hedge shall both be defined conservatively. The effective maturity of the underlying shall be gauged as the longest possible remaining time before the counterparty is scheduled to fulfill its obligation, taking into account any applicable grace period.

responsibility of the protection seller. The protection buyer shall have the right/ability to inform the protection seller of the occurrence of a credit event.

j) A mismatch between the underlying obligation and the reference obligation or deliverable obligation is permissible if (1) the reference obligation or deliverable obligation ranks paripassu with or is junior to the underlying obligation, and (2) the underlying obligation and reference obligation or deliverable obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross default or cross-acceleration clauses are in place.

(k) A mismatch between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible if (1) the latter obligation ranks paripassu with or is junior to the underlying obligation, and (2) the underlying obligation and reference obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross-default or cross acceleration clauses are in place.

3. Treatment of exposures below materiality thresholds Materiality thresholds on payments below which no payment is made in the event of loss as per the CDS contract, are equivalent to retained first loss positions and shall be assigned risk weight of 667 per cent (1/0.15*100 as minimum CRAR requirement for NBFCs is 15 per cent) for capital adequacy purpose by the protection buyer.

4. Prudential treatment post-credit event In case the credit event payment is not received within the period as stipulated in the CDS contract, the NBFC shall ignore the credit protection of the CDS and reckon the credit exposure on the underlying asset and maintain appropriate level of capital and provisions as warranted for the exposure. On receipt of the credit event payment, (a) the underlying asset shall be removed from the books if it has been delivered to the protection seller; or (b) the book value of the underlying asset shall be reduced to the extent of credit event payment received if the credit event payment does not fully cover the book value of the underlying asset and appropriate provisions shall be maintained for the reduced value.

5. Capital Adequacy In terms of Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 risk weights for credit risk for corporate bonds held by NBFCs is 100 per cent. A CDS contract creates a counterparty exposure on the protection seller on account of the credit event payment. In case of hedging of the cash position by CDS, the exposure shall be reckoned on the protection seller subject to the conditions mentioned in para 6 below. NBFCs shall calculate the counterparty credit risk charge for all bought CDS positions as the sum of the current mark-to-market value, (if positive and zero, if MTM is negative) and the potential future exposure.

6. Treatment of exposure to the protection seller

6.1 Exposure to the underlying asset in respect of the hedged exposure shall be deemed to have been substituted by exposure to the protection seller, if the following conditions are satisfied:

a. Operational requirements mentioned in para 2 are satisfied

b. There is no maturity mis-match between the underlying asset and the deliverable obligation. If this condition is not satisfied, then the amount of credit protection to be recognised shall be computed as indicated in paragraph 6.2 below. In all other cases the exposure shall be deemed to be on the underlying asset.

6.2 Risk weights as applicable to the underlying assets shall be applied for the unprotected portion of the exposure. The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset/ obligation and the deliverable asset / obligation with regard to asset or maturity. These are dealt with in detail in the following paragraphs.

6.3 Mismatches The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset/ obligation and the deliverable asset / obligation with regard to asset or maturity.

(i) Asset mismatches: Asset mismatch will arise if the underlying asset is different from the deliverable obligation. Protection shall be reckoned as available to the NBFC only if the mismatched assets meet the requirements specified in paragraph 2 (j) above.

(ii) Maturity mismatches: The NBFC shall be eligible to reckon the amount of protection if the maturity of the credit derivative contract were to be equal to the maturity of the underlying asset. If, however, the maturity of the CDS contract is less than the maturity of the underlying asset, then it shall be construed as a maturity mismatch. In case of maturity mismatch the amount of protection shall be determined in the following manner:

a. If the residual maturity of the credit derivative product is less than three months no protection shall be recognized.

b. If the residual maturity of the credit derivative contract is three months or more protection proportional to the period for which it is available shall be recognised.

When there is a maturity mismatch the following adjustment shall be applied. $Pa = P \times (t- .25) \div (T- .25)$ Where: Pa = value of the credit protection adjusted for maturity mismatch P = credit protection t = min (T, residual maturity of the credit protection arrangement) expressed in years T = min (5, residual maturity of the underlying exposure) expressed in years Example: Suppose the underlying asset is a corporate bond of Face Value of ₹ 100 where the residual maturity is of 5 years and the residual maturity of the CDS is 4 years. The amount of credit protection is computed as under: $100 * \{(4-.25) \div (5-.25)\} = 100*(3.75\div 4.75) = 78.95$ c. Once the residual maturity of the CDS contract reaches three months, protection ceases to be recognised.

6.4 NBFCs as users shall adhere to all the criteria required for transferring the exposures fully to the protection seller in terms of paragraph 6.1 above on an on-going basis so as to qualify for exposure relief on the underlying asset. In case any of these criteria are not met subsequently, the NBFC shall have to reckon the exposure on the underlying asset. Therefore, NBFCs shall restrict the total exposure to an obligor including that covered by way of CDS within an internal exposure ceiling considered appropriate by the Board of the NBFC in such a way that it shall not breach the single / group borrower exposure limit prescribed by RBI. In case of the event of any breach in the single / group borrower exposure limit, the entire exposure in excess of the limit will be risk weighted at 667 per cent. In order to ensure that consequent upon such a treatment, the NBFC shall not breach the minimum capital requirement prescribed by RBI, it shall keep sufficient cushion in capital in case it assumes exposures in excess of normal exposure limit.

6.5 No netting of positive and negative marked-to-market values of the contracts with the same counterparty shall be allowed for the purpose of complying with the exposure norms.

7. General Provisions Requirements

For the CDS positions of NBFCs, they shall hold general provisions for gross positive marked-to-market values of the CDS contracts.

8. Reporting Requirement:

On a quarterly basis, NBFCs shall report “total exposure” in all cases where they have assumed exposures against borrowers in excess of the normal single / group exposure limits due to the credit protections obtained by them through CDS, guarantees or any other permitted instruments of credit risk transfer, to the Regional Office of Department of Supervision where they are registered.

9. NBFCs shall also disclose in their notes to accounts of balance sheet the details given in annex below:

Annex

Format of Disclosure to be made in the Annual Financial Statements

			(₹ crore)
1.	No. of transactions during the year		
2.	Amount of protection bought during the year		
3.	No. of transactions where credit event payment was received during the year		
	a)	pertaining to current year's transactions	
	b)	pertaining to previous year(s)' transactions	
4.	Outstanding transactions as on March 31		
	a)	No. of Transactions	
	b)	Amount of protection	
5.	Net income / profit (expenditure / loss) in respect of CDS transactions during year-to-date		
	a)	premium paid	
	b)	Credit event payments received (net of value of deliverable obligation).	

Annex XVII

Guidelines on Private Placement of NCDs (maturity more than 1 year) by NBFCs

1. NBFCs shall put in place a Board approved policy for resource planning which, inter-alia, shall cover the planning horizon and the periodicity of private placement.

2. The issues shall be governed by the following instructions:

i. The minimum subscription per investor shall be ₹20,000 (Rupees Twenty thousand);

ii. The issuance of private placement of NCDs shall be in two separate categories, those with a maximum subscription of less than ₹1 crore and those with a minimum subscription of ₹1 crore and above per investor;

iii. There shall be a limit of 200 subscribers for every financial year, for issuance of NCDs with a maximum subscription of less than ₹1 crore, and such subscription shall be fully secured;

iv. There shall be no limit on the number of subscribers in respect of issuances with a minimum subscription of ₹1 crore and above; the option to create security in favour of subscribers shall be with the issuers. Such unsecured debentures shall not be treated as public deposits as defined in these Directions.

v. An NBFC shall issue debentures only for deployment of funds on its own balance sheet and not to facilitate resource requests of group entities / parent company / associates.

vi. An NBFC shall not extend loans against the security of its own debentures (issued either by way of private placement or public issue).

3. Tax exempt bonds offered by NBFCs are exempted from the applicability of the circular.

4. For NCDs of maturity upto one year, guidelines on Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010, dated June 23, 2010, by Internal Debt Management Department, RBI shall be applicable.

Annex XVIII

Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy

1. Corrective Action Plan to arrest increasing NPAs

1.1 Early Recognition of Stress and Reporting to Central Repository of Information on Large Credits (CRILC)

1.1.1 Every NBFC shall recognise incipient stress in loan accounts, immediately on default[34], by classifying such assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 180 days

1.1.2 The Reserve Bank of India has set up a Central Repository of Information on Large Credits (CRILC) to collect, store, and disseminate credit data to lenders as advised by the Bank in its Circular No. DBS.No.OSMOS. 9862/33.01.018/2013-14 dated February 13, 2014 issued by the Department of Banking Supervision. All NBFCs, (Notified NBFCs, for short) shall be required to report the relevant credit information on a quarterly basis in the enclosed formats given in Annex I to CRILC once the XBRL reporting mechanism is established. Till then they shall forward the information to PCGM, Department of Banking Supervision, Reserve Bank of India, World Trade Centre, Mumbai - 400 005 in hard copy. The data includes credit information on all the borrowers having aggregate fund-based and non-fund based exposure of ₹ 5 crore and above with them and the SMA status of the borrower. The Notified NBFCs shall be ready with the correct PAN details of their borrowers having

[34] ‘Default’ means non-payment of debt (as defined under the IBC) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be.

fund based and/ or non-fund based exposure of ₹5 crore and above duly authenticated from Income Tax records.

1.1.3 Individual notified NBFCs shall closely monitor the accounts reported as SMA-1 or SMA-0 as these are the early warning signs of weaknesses in the account. They shall take up the issue with the borrower with a view to rectifying the deficiencies at the earliest. However, as soon as an account is reported as SMA-2 by one or more lending banks/ notified NBFCs, this will trigger the mandatory formation of a Joint Lenders' Forum (JLF) and formulation of Corrective Action Plan (CAP) (Annex-B) as envisioned in Para 2.3 of the Framework. Notified NBFCs must put in place a proper Management Information and Reporting System so that any account having principal or interest overdue for more than 60 days gets reported as SMA-2 on the 61st day itself in the format given in Annex II in hard copy to PCGM, Department of Banking Supervision, Reserve Bank of India, World Trade Centre, Mumbai - 400 005. NBFCs shall endeavour to put in place an XBRL reporting framework at the earliest.

1.2 Accelerated Provisioning

1.2.1 In cases where NBFCs fail to report SMA status of the accounts to CRILC or resort to methods with the intent to conceal the actual status of the accounts or evergreen the account, NBFCs shall be subjected to accelerated provisioning for these accounts and / or other supervisory actions as deemed appropriate by RBI. The current provisioning requirement and the revised accelerated provisioning in respect of such non performing accounts are as under:

Asset Classification	Period as NPA	Period as NPA For NBFCs	Current *provisioning (%) NBFCs	Revised accelerated provisioning (%) for banks and proposed for NBFCs
Sub- standard (secured)	Up to 6 months			No change
	6 months to 1 year	6 months to 1 and half year	For secured and unsecured 10	25
Sub-standard	Up to 6	--		25

(unsecured ab-initio)	months	--		
	6 months to 1 year	6 months to 1 and half year	10	40
		6 months to 1 and half year	10	
Doubtful I	2nd year	Upto One year (secured portion)	20	40 (secured portion)
		Up to one year (unsecured portion)	100	100 (unsecured portion)
		1-3 years	30 for secured portion and 100 for unsecured portion	For NBFCs the above may be adopted i.e. 40 and 100
Doubtful II	3rd & 4th year	More than Three Years	100 for unsecured portion and 50 for secured portion	100 for both secured and unsecured portions
Doubtful III	5th year onwards			100

1.2.2 Further, any of the lenders who have agreed to the restructuring decision under the CAP by JLF and is a signatory to the Inter Creditor Agreement (ICA) and Debtor Creditor Agreement (DCA), but changes their stance later on, or delays / refuses to implement the package, shall also be subjected to accelerated provisioning requirement as indicated above, on their exposure to this borrower i.e., if it is classified as an NPA. If the account is standard in those lenders' books, the provisioning requirement would be 5 per cent. Further, any such backtracking by a lender might attract negative supervisory view during Supervisory Review and Evaluation Process.

1.2.3 Presently, asset classification is based on record of recovery at individual NBFCs and provisioning is based on asset classification status at the level of each NBFCs. However, if lenders fail to convene the JLF or fail to agree upon a common CAP within the stipulated time frame, the account shall be subjected to accelerated provisioning as indicated above, if it is classified as an NPA. If the account is standard in those lenders' books, the provisioning requirement would be 5 per cent.

1.3 Non-Co-operative borrowers

1.3.1 All Notified NBFCs shall identify "non-co-operative borrowers". A "non-co-operative borrower" is defined as one who does not provide necessary information required by a lender to assess its financial health even after 2 reminders; or denies access to securities etc. as per terms of sanction or does not comply with other terms of loan agreements within stipulated period; or is hostile/ indifferent/ in denial mode to negotiate with the NBFC on repayment issues; or plays for time by giving false impression that some solution is on horizon; or resorts to vexatious tactics such as litigation to thwart timely resolution of the interest of the lender/s. The borrowers shall be given 30 days' notice to clarify their stand before their names are reported as non-cooperative borrowers.

1.3.2 With a view to discouraging borrowers/ defaulters from being unreasonable and non-cooperative with lenders in their bonafide resolution/ recovery efforts, NBFCs shall classify such borrowers as non-cooperative borrowers, after giving them due notice if satisfactory clarifications are not furnished. Notified NBFCs shall be required to report classification of such borrowers to CRILC. Further, NBFCs shall be required to make higher/ accelerated provisioning in respect of new loans/ exposures to such borrowers as also new loans/ exposures to any other company promoted by such promoters/ directors or to a company on whose board any of the promoter / directors of this non-cooperative borrower is a director. The provisioning applicable in such cases shall be at the rate of 5 per cent if it is a standard account and accelerated provisioning, if it is an NPA. This is a prudential measure since the expected losses on exposures to such non-cooperative borrowers are likely to be higher.

2. Board Oversight

2.1 The Board of Directors of NBFCs shall take all necessary steps to arrest the deteriorating asset quality in their books and shall focus on improving the credit risk management system. Early recognition of problems in asset quality and resolution envisaged in the Framework requires the lenders to be proactive and make use of CRILC as soon as it becomes functional.

2.2 Boards shall ensure that a policy is put in place for timely provision of credit information to and access to credit information from CRILC, prompt formation of JLFs, monitoring the progress of JLFs and periodical review of the above policy.

3. Credit Risk Management

3.1 Notified NBFCs shall carry out their independent and objective credit appraisal in all cases of lending and must not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrowing entity. They shall carry out sensitivity tests/ scenario analysis, especially for infrastructure projects, which shall, inter alia, include project delays and cost overruns. This will aid in taking a view on viability of the project at the time of deciding Corrective Action Plan (CAP). NBFCs shall ascertain the source and quality of equity capital brought in by the promoters / shareholders. Multiple leveraging, especially, in infrastructure projects, is a matter of concern as it effectively camouflages the financial ratios such as Debt/ Equity ratio, leading to adverse selection of the borrowers. Therefore, NBFCs shall ensure at the time of credit appraisal that debt of the parent company is not infused as equity capital of the subsidiary/ SPV.

3.2 While carrying out the credit appraisal, notified NBFCs shall verify as to whether the names of any of the directors of the companies appear in the list of defaulters by way of reference to DIN/ PAN etc. Further, in case of any doubt arising on account of identical names, NBFCs shall use independent sources for confirmation of the identity of directors rather than seeking declaration from the borrowing company.

3.3 In addition to the above, notified NBFCs shall with a view to ensuring proper end-use of funds and preventing diversion/ siphoning of funds by the borrowers, NBFCs could consider engaging their own auditors for such specific certification purpose without relying on certification given by borrower's auditors. However, this cannot substitute NBFC's basic minimum own diligence in the matter.

Annex A

SMA-0 Signs of Stress

Illustrative list of signs of stress for categorising an account as SMA-0:

1. Delay of 90 days or more in (a) submission of stock statement/ other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.

2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation/ prevention from conduct of stock audits by NBFCs or evidence of diversion of funds for unapproved purpose.

3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills/ cheques discounted or sent under collection by the borrower.

4. Devolvement of Deferred Payment Guarantee (DPG) instalments or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.

5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.

6. The borrower reporting stress in the business and financials.

7. Promoter(s) pledging/ selling their shares in the borrower company due to financial stress.

Annex B

Formation of Joint Lenders Forum (JLF)

Notified NBFCs are advised that as soon as an account is reported by any of the lenders to CRILC as SMA-2, they shall mandatorily form a committee to be called Joint Lenders' Forum (JLF) if the aggregate exposure (AE) [fund based and non-fund based taken together] of lenders in that account is ₹ 100 crore and above. Lenders also have the option of forming a JLF even when the AE in an account is less than ₹100 crore and/or when the account is reported as SMA-0 or SMA-1.

1.2 While the existing Consortium Arrangement for consortium accounts shall serve as JLF with the Consortium Leader as convener, for accounts under Multiple Banking Arrangements (MBA), the lender with the highest AE shall convene JLF at the earliest and facilitate exchange of credit information on the account. In case there are multiple consortium of lenders for a borrower (e.g. separate consortium for working capital and term loans), the lender with the highest AE will convene the JLF.

1.3 It is possible that a borrower may request the lender/s, with substantiated grounds, for formation of a JLF on account of imminent stress. When such a request is received by a lender, the account shall be reported to CRILC as SMA-0, and the lenders shall also form the JLF immediately if the AE is ₹100 crore and above. It is, however, clarified that for the present, JLF formation is optional in other cases of SMA-0 reporting.

1.4 All the lenders shall formulate and sign an Agreement (which may be called JLF agreement) incorporating the broad rules for the functioning of the JLF. The Indian Banks' Association (IBA) would prepare a Master JLF agreement and operational guidelines for JLF which could be adopted by all lenders. The JLF shall explore the possibility of the borrower setting right the irregularities/weaknesses in the account. The JLF may invite representatives of the Central/State Government/Project authorities/Local authorities, if they have a role in the implementation of the project financed.

1.5 While JLF formation and subsequent corrective actions shall be mandatory in accounts having AE of ₹ 100 crore and above, in other cases also the lenders shall have to monitor the asset quality closely and take corrective action for effective resolution as deemed appropriate.

2.Corrective Action Plan (CAP) by JLF

2.1 The JLF may explore various options to resolve the stress in the account. The intention is not to encourage a particular resolution option, e.g. restructuring or recovery, but to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans. The options under CAP by the JLF shall generally include:

(a) Rectification - Obtaining a specific commitment from the borrower to regularise the account so that the account comes out of SMA status or does not slip into the NPA category. The commitment shall be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. If the existing promoters are not in a position to bring in additional money or take any measures to regularise the account, the possibility of getting some other equity/strategic investors to the company may be explored by the JLF in consultation with the borrower. These measures are intended to turn-around the entity/company without any change in terms and conditions of the loan. The JLF may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. However, it shall be strictly ensured that additional financing is not provided with a view to ever-greening the account.

(b) Restructuring - Consider the possibility of restructuring the account if it is prima facie viable and there is no diversion of funds, fraud or malfeasance, etc. At this stage, commitment from promoters for extending their personal guarantees along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they shall not undertake any transaction that shall alienate assets without the permission of the JLF. Any deviation from the commitment by the borrowers affecting the security/recoverability of the loans may be treated as a valid factor for initiating recovery process. For this action to be sustainable, the lenders in the JLF may sign an Inter Creditor Agreement (ICA) and also require the borrower to sign the Debtor Creditor Agreement (DCA) which shall provide the legal basis for any restructuring process. The formats used by the Corporate Debt Restructuring (CDR) mechanism for ICA and DCA could be considered, if necessary with appropriate changes. Further, a 'stand still' clause could be stipulated in the DCA to enable a smooth process of restructuring. The 'stand-still' clause does not mean that the borrower is precluded from making payments to the lenders. The ICA may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c) Recovery - Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The JLF may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimising the efforts and results.

2.2 The decisions agreed upon by a minimum of 75 per cent of creditors by value and 60 per cent of creditors by number in the JLF shall be considered as the basis for proceeding with the restructuring of the account, and shall be binding on all lenders under the terms of the ICA. However, if the JLF decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws/Acts would be applicable.

2.3 The JLF is required to arrive at an agreement on the option to be adopted for CAP within 30 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress. The JLF shall sign off the detailed final CAP within the next 30 days from the date of arriving at such an agreement.

2.4 If the JLF decides on options 2.1 (a) or (b), but the account fails to perform as per the agreed terms under option (a) or (b), the JLF shall initiate recovery under option 2.1 (c).

3. Restructuring Process

3.1 RBI's extant prudential guidelines on restructuring of advances lay down detailed methodology and norms for restructuring of advances under individual as well as multiple/ consortium arrangements. Corporate Debt Restructuring (CDR) mechanism is an institutional framework for restructuring of multiple/ consortium advances of banks and NBFCs where even creditors who are not part of CDR system can join by signing transaction to transaction based agreements.

3.2 If the JLF decides restructuring of the account as CAP, it shall have the option of either referring the account to CDR Cell after a decision to restructure is taken under para 2.1 as indicated above or restructure the same independent of the CDR mechanism.

3.3 Restructuring by JLF

3.3.1 If the JLF decides to restructure an account independent of the CDR mechanism, the JLF shall carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP as mentioned in paragraph 2.3 above.

3.3.2 For accounts with AE of less than ₹500 crore, the above-mentioned restructuring package shall be approved by the JLF and conveyed by the lenders to the borrower within the next 15 days for implementation.

3.3.3 For accounts with AE of ₹500 crore and above, the above-mentioned TEV study and restructuring package shall have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts fulfilling certain eligibility conditions. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC shall be required to give their recommendation in these cases to the JLF within a period of 30 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the restructuring package including all terms and conditions as mutually agreed upon between the lenders and borrower, shall have to be approved by all the lenders and communicated to the borrower within next 15 days for implementation.

3.3.4 Asset Classification benefit as applicable under the extant guidelines shall accrue to such restructured accounts as if they were restructured under CDR mechanism. For this purpose, the asset classification of the account as on the date of formation of JLF shall be taken into account.

3.3.5 The above-mentioned time limits are maximum permitted time periods and the JLF shall try to arrive at a restructuring package as soon as possible in cases of simple restructuring.

3.3.6 Restructuring cases shall be taken up by the JLF only in respect of assets reported as Standard, SMA or Sub-Standard by one or more lenders of the JLF. While generally no account classified as doubtful shall be considered by the JLF for restructuring, in cases where a small portion of debt is doubtful i.e. the account is standard/sub-standard in the books of at least 90% of creditors (by value), the account shall then be considered under JLF for restructuring.

3.3.7 The viability of the account shall be determined by the JLF based on acceptable viability benchmarks determined by them. Illustratively, the parameters may include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity/Current Ratio and the amount of provision required in lieu of the diminution in the fair value of the restructured advance, etc. Further, the JLF may consider the benchmarks for the viability parameters adopted by the CDR mechanism as mentioned in these Directions and adopt the same with suitable adjustments taking into account the fact that different sectors of the economy have different performance indicators.

3.4 Restructuring Referred by the JLF to the CDR Cell

3.4.1 If the JLF decides to refer the account to CDR Cell after a decision to restructure is taken under para 2.1, the following procedure shall be followed.

3.4.2 As the preliminary viability of account has already been decided by the JLF, CDR Cell shall directly prepare the Techno-Economic Viability (TEV) study and restructuring plan in consultation with JLF within 30 days from the date of reference to it by the JLF.

3.4.3 For accounts with AE of less than ₹500 crore, the above-mentioned restructuring package shall be submitted to CDR Empowered Group (EG) for approval. Under extant instructions, CDR EG can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days, which can be extended up to a maximum of 180 days from the date of reference to CDR Cell. However, the cases referred to CDR Cell by JLF shall have to be finally decided by the CDR EG within the next 30 days. If approved by CDR EG, the restructuring package shall be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

3.4.4 For accounts with AE of ₹500 crore and above, the TEV study and restructuring package prepared by CDR Cell shall have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts. As stated in paragraph 3.3.3, composition and other details of the IEC would be communicated separately by IBA to banks. The IEC shall look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC shall be required to give their recommendation in these aspects to the CDR Cell under advice to JLF within a period of 30 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the same shall be communicated to CDR Cell and CDR Cell shall submit the restructuring package to CDR EG within a total period of 7 days from receiving the views of IEC. Thereafter, CDR EG shall decide on the approval/modification/rejection within the next 30 days. If approved by CDR EG, the restructuring package shall be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

4. Other Issues/Conditions Relating to Restructuring by JLF/CDR Cell

4.1 Both under JLF and CDR mechanism, the restructuring package shall also stipulate the timeline during which certain viability milestones (e.g. improvement in certain financial ratios after a period of time, say, 6 months or 1 year and so on) would be achieved. The JLF must periodically review the account for achievement/non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.

4.2 Restructuring whether under JLF or CDR is to be completed within the specified time periods. The JLF and CDR Cell shall optimally utilise the specified time periods so that the aggregate time limit is not breached under any mode of restructuring. If the JLF/CDR takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilise the saved time for other activities provided the aggregate time limit is not breached.

4.3 The general principle of restructuring shall be that the shareholders bear the first loss rather than the debt holders. With this principle in view and also to ensure more ‘skin in the game’ of promoters, JLF/CDR may consider the following options when a loan is restructured:

• Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;

• Promoters infusing more equity into their companies;

• Transfer of the promoters’ holdings to a security trustee or an escrow arrangement till turnaround of company. This shall enable a change in management control, should lenders favour it.

4.4 In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets shall be stipulated as a condition for restructuring the account, if under the TEV study the account is likely to become viable on hiving off of non-core activities and other assets.

4.5 For restructuring of dues in respect of listed companies, lenders shall be ab-initio compensated for their loss/sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the extant regulations and statutory requirements. In such cases, the restructuring agreement shall not incorporate any right of recompense clause. However, if the lenders’ sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall. For unlisted companies, the JLF shall have option of either getting equities issued or incorporate suitable ‘right to recompense’ clause.

4.6 In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the JLF/CDR could consider various options like:

• Prior agreement in the ICA among the above classes of lenders regarding repayments, say, as per an agreed waterfall mechanism;

• A structured agreement stipulating priority of secured creditors;

• Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

The above is only an illustrative list and the JLF may decide on a mutually agreed option. It also needs to be emphasised that while one lender may have a better security interest when it comes to one borrower, the case may be vice versa in the case of another borrower. So, it shall be beneficial if lenders appreciate the concerns of fellow lenders and arrive at a mutually agreed option with a view to preserving the economic value of assets. Once an option is agreed upon, the lender having the largest exposure may take the lead in ensuring distribution according to agreed terms once the restructuring package is implemented.

4.7 As regards prudential norms and operational details, RBI’s guidelines on CDR Mechanism, shall be applicable to the extent that they are not inconsistent with these guidelines.

5. Prudential Norms on Asset Classification and Provisioning

5.1 While a restructuring proposal is under consideration by the JLF/ CDR, the usual asset classification norm would continue to apply. The process of re-classification of an asset shall not stop merely because restructuring proposal is under consideration by the JLF/CDR.

5.2 However, as an incentive for quick implementation of a restructuring package, the special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these guidelines, subject to adherence to the overall timeframe for approval of restructuring package detailed in paragraphs 3.3 and 3.4 above and implementation of the approved package within 90 days from the date of approval. The asset classification status as on the date of formation of JLF shall be the relevant date to decide the asset classification status of the account after implementation of the final restructuring package. As advised to NBFCs, in these Directions, the special asset classification benefit as above shall however be withdrawn for all restructurings with effect from April 1, 2015 with the exception of provisions related to changes in Date of Commencement of Commercial Operations (DCCO) in respect of infrastructure and non-infrastructure project loans.

5.3 As a measure to ensure adherence to the proposals made in these guidelines as also to impose disincentives on borrowers for not maintaining credit discipline, accelerated provisioning norms (as detailed in the guidelines) are being introduced.

Annex XIX

Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs

1. Introduction

1.1 'Outsourcing' is defined as the NBFC's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the NBFC itself, now or in the future.

'Continuing basis' includes agreements for a limited period.

1.2 NBFCs have been outsourcing various activities and are hence exposed to various risks as detailed in para 5.3. Further, the outsourced activities are to be brought within regulatory purview to a) protect the interest of the customers of NBFCs and b) to ensure that the NBFC concerned and the Reserve Bank of India have access to all relevant books, records and information available with service provider. Typically outsourced financial services include applications processing (loan origination, credit card), document processing, marketing and research, supervision of loans, data processing and back office related activities, besides others.

1.3 Some key risks in outsourcing are Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counterparty Risk, Country Risk, Contractual Risk, Access Risk, Concentration and Systemic Risk. The failure of a service provider in providing a specified service, a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider can lead to financial losses or loss of reputation for the NBFC and could also lead to systemic risks.

1.4 It is therefore imperative for the NBFC outsourcing its activities to ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from such outsourced activities. The directions are applicable to material outsourcing arrangements as explained in para 3 which may be entered into by an NBFC with a service provider located in India or elsewhere. The service provider may either be a member of the group/ conglomerate to which the NBFC belongs, or an unrelated party.

1.5 The underlying principles behind these directions are that the regulated entity shall ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and RBI nor impede effective supervision by RBI. NBFCs, therefore, have to take steps to ensure that the service provider employs the same high standard of care in performing the services as is expected to be employed by the NBFCs, if the activities were conducted within the NBFCs and not outsourced. Accordingly, NBFCs shall not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened.

1.6 (i) These directions are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc. NBFCs which desire to outsource financial services would not require prior approval from RBI. However, such arrangements would be subject to on-site/ off- site monitoring and inspection/ scrutiny by RBI.

(ii) In regard to outsourced services relating to credit cards, RBI's detailed instructions contained in its circular on credit card activities vide DBOD.FSD.BC.49/24.01.011/2005-06 dated November 21, 2005 would be applicable.

2. Activities that shall not be outsourced

NBFCs which choose to outsource financial services shall, however, not outsource core management functions including Internal Audit, Strategic and Compliance functions and decision-making functions such as determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio**.** However, for NBFCs in a group/ conglomerate, these functions may be outsourced within the group subject to compliance with instructions in Para 6. Further, while internal audit function itself is a management process, the internal auditors can be on contract.

3. Material Outsourcing

For the purpose of these directions, material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Materiality of outsourcing would be based on:

- the level of importance to the NBFC of the activity being outsourced as well as the significance of the risk posed by the same;
- the potential impact of the outsourcing on the NBFC on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- the likely impact on the NBFC's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- the cost of the outsourcing as a proportion of total operating costs of the NBFC;
- the aggregate exposure to that particular service provider, in cases where the NBFC outsources various functions to the same service provider and
- the significance of activities outsourced in context of customer service and protection.

4. NBFC's role and Regulatory and Supervisory Requirements

4.1 The outsourcing of any activity by NBFC does not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. NBFCs would therefore be responsible for the actions of their service provider including Direct Sales Agents/ Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider. NBFCs shall retain ultimate control of the outsourced activity.

4.2 It is imperative for the NBFC, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.

4.3 Outsourcing arrangements shall not affect the rights of a customer against the NBFC, including the ability of the customer to obtain redress as applicable under relevant laws. In cases where the customers are required to deal with the service providers in the process of dealing with the NBFC, NBFCs shall incorporate a clause in the relative product literature/ brochures, etc., stating that they may use the services of agents in sales/ marketing etc. of the products. The role of agents may be indicated in broad terms.

4.4 The service provider shall not impede or interfere with the ability of the NBFC to effectively oversee and manage its activities nor shall it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.

4.5 NBFCs need to have a robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.

4.6 The service provider, if not a group company of the NBFC, shall not be owned or controlled by any director of the NBFC or their relatives; these terms have the same meaning as assigned under Companies Act, 2013.

5. Risk Management practices for Outsourced Financial Services

5.1 Outsourcing Policy

An NBFC intending to outsource any of its financial activities shall put in place a comprehensive outsourcing policy, approved by its Board, which incorporates, inter alia, criteria for selection of such activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities.

5.2 Role of the Board and Senior Management

5.2.1 Role of the Board

The Board of the NBFC, or a Committee of the Board to which powers have been delegated shall be responsible *inter alia* for the following:

i. approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
ii. laying down appropriate approval authorities for outsourcing depending on risks and materiality;
iii. setting up suitable administrative framework of senior management for the purpose of these directions;
iv. undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness and
v. deciding on business activities of a material nature to be outsourced, and approving such arrangements.

5.2.2 Responsibilities of the Senior Management

i. Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;

ii. developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
iii. reviewing periodically the effectiveness of policies and procedures;
iv. communicating information pertaining to material outsourcing risks to the Board in a timely manner;
v. ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
vi. ensuring that there is independent review and audit for compliance with set policies and
vii. undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

5.3 Evaluation of the Risks

The NBFCs shall evaluate and guard against the following risks in outsourcing:

i. Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the NBFC.
ii. Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the NBFC.
iii. Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
iv. Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
v. Legal Risk– Where the NBFC is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
vi. Exit Strategy Risk– Where the NBFC is over-reliant on one firm, the loss of relevant skills in the NBFC itself preventing it from bringing the activity back in-house and where NBFC has entered into contracts that make speedy exits prohibitively expensive.
vii. Counter party Risk– Where there is inappropriate underwriting or credit assessments.
viii. Contractual Risk– Where the NBFC may not have the ability to enforce the contract.

ix. Concentration and Systemic Risk– Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.

x. Country Risk– Due to the political, social or legal climate creating added risk.

5.4 Evaluating the Capability of the Service Provider

5.4.1 In considering or renewing an outsourcing arrangement, appropriate due diligence shall be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement. Due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors. NBFCs shall consider whether the service providers' systems are compatible with their own and also whether their standards of performance including in the area of customer service are acceptable to it. NBFCs shall also consider, while evaluating the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider. Where possible, the NBFC shall obtain independent reviews and market feedback on the service provider to supplement its own findings.

5.4.2 Due diligence shall involve an evaluation of all available information about the service provider, including but not limited to the following:

i. past experience and competence to implement and support the proposed activity over the contracted period;

ii. financial soundness and ability to service commitments even under adverse conditions;

iii. business reputation and culture, compliance, complaints and outstanding or potential litigation;

iv. security and internal control, audit coverage, reporting and monitoring environment, business continuity management and

v. ensuring due diligence by service provider of its employees.

5.5 The Outsourcing Agreement

The terms and conditions governing the contract between the NBFC and the service provider shall be carefully defined in written agreements and vetted by NBFC's legal counsel on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. The agreement shall be sufficiently flexible to allow the NBFC to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement shall also bring out the nature of legal relationship between the parties - i.e. whether agent, principal or otherwise. Some of the key provisions of the contract shall be the following:

i. the contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
ii. the NBFC must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
iii. the contract shall provide for continuous monitoring and assessment by the NBFC of the service provider so that any necessary corrective measure can be taken immediately;
iv. a termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;
v. controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information shall be incorporated;
vi. there must be contingency plans to ensure business continuity;
vii. the contract shall provide for the prior approval/ consent by the NBFC of the use of subcontractors by the service provider for all or part of an outsourced activity;
viii. it shall provide the NBFC with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the NBFC;
ix. outsourcing agreements shall include clauses to allow the Reserve Bank of India or persons authorised by it to access the NBFC's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
x. outsourcing agreement shall also include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of an NBFC and its books and account by one or more of its officers or employees or other persons;
xi. the outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated and

xii. the NBFC shall have necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

5.6 Confidentiality and Security

5.6.1 Public confidence and customer trust in the NBFC is a prerequisite for the stability and reputation of the NBFC. Hence the NBFC shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.

5.6.2 Access to customer information by staff of the service provider shall be on 'need to know' basis i.e., limited to those areas where the information is required in order to perform the outsourced function.

5.6.3 The NBFC shall ensure that the service provider is able to isolate and clearly identify the NBFC's customer information, documents, records and assets to protect the confidentiality of the information. In instances, where service provider acts as an outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.

5.6.4 The NBFC shall review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.

5.6.5 The NBFC shall immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the NBFC would be liable to its customers for any damages.

5.7 Responsibilities of Direct Sales Agents (DSA)/ Direct Marketing Agents (DMA)/ Recovery Agents

5.7.1 NBFCs shall ensure that the DSA/ DMA/ Recovery Agents are properly trained to handle their responsibilities with care and sensitivity, particularly aspects such as soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer, etc.

5.7.2 NBFCs shall put in place a board approved Code of conduct for DSA/ DMA/ Recovery Agents, and obtain their undertaking to abide by the code. In addition, Recovery Agents shall adhere to extant instructions on Fair Practices Code for NBFCs as also their own code for collection of dues and repossession of security. It is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of the NBFC and that they observe strict customer confidentiality.

5.7.3 The NBFC and their agents shall not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude upon the privacy of the debtors' family members, referees and friends, sending inappropriate messages either on mobile or through social media, making threatening and/or anonymous calls, persistently[35] calling the borrower and/ or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans, making false and misleading representations, etc. Any violation in this regard will be viewed seriously.

5.7.4 The above paragraph 5.7.3 is not applicable to microfinance loans covered under Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022, (as amended from time to time)[36].

5.8 Business Continuity and Management of Disaster Recovery Plan

5.8.1 An NBFC shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. NBFCs need to ensure that the service provider periodically tests the Business Continuity and Recovery Plan and may also consider occasional joint testing and recovery exercises with its service provider.

5.8.2 In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, NBFCs shall retain an appropriate level of control over their outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the NBFC and its services to the customers.

5.8.3 In establishing a viable contingency plan, NBFCs shall consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency and the costs, time and resources that would be involved.

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[35] For example- calling repeatedly

[36] Inserted vide circular DOR.ORG.REC.65/21.04.158/2022-23 dated August 12, 2022.

5.8.4 Outsourcing often leads to the sharing of facilities operated by the service provider. The NBFC shall ensure that service providers are able to isolate the NBFC's information, documents and records, and other assets. This is to ensure that in appropriate situations, all documents, records of transactions and information given to the service provider, and assets of the NBFC, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

5.9 Monitoring and Control of Outsourced Activities

5.9.1 The NBFC shall have in place a management structure to monitor and control its outsourcing activities. It shall ensure that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

5.9.2 A central record of all material outsourcing that is readily accessible for review by the Board and senior management of the NBFC shall be maintained. The records shall be updated promptly and half yearly reviews shall be placed before the Board or Risk Management Committee.

5.9.3 Regular audits by either the internal auditors or external auditors of the NBFC shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the NBFC's compliance with its risk management framework and the requirements of these directions.

5.9.4 NBFCs shall at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

5.9.5 In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in the branch, posting it on the website, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.

5.9.6 Certain cases, like outsourcing of cash management, might involve reconciliation of transactions between the NBFC, the service provider and its sub-contractors. In such cases, NBFCs shall ensure that reconciliation of transactions between the NBFC and the service provider (and/ or its sub-contractor), are carried out in a timely manner. An ageing analysis of entries pending reconciliation with outsourced vendors shall be placed before the Audit Committee of the Board (ACB) and NBFCs shall make efforts to reduce the old outstanding items therein at the earliest.

5.9.7 A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the ACB of the NBFC.

5.10 Redress of Grievances related to Outsourced Services

i. NBFCs shall constitute Grievance Redressal Machinery as contained in RBI's circular on Grievance Redressal Mechanism vide DNBS. CC. PD. No. 320/03. 10. 01/2012-13 dated February 18, 2013. At the operational level, all NBFCs shall display the name and contact details (Telephone/ Mobile nos. as also email address) of the Grievance Redressal Officer prominently at their branches/ places where business is transacted. The designated officer shall ensure that genuine grievances of customers are redressed promptly without involving delay. It shall be clearly indicated that NBFCs' Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.

ii. Generally, a time limit of 30 days may be given to the customers for preferring their complaints/ grievances. The grievance redressal procedure of the NBFC and the time frame fixed for responding to the complaints shall be placed on the NBFC's website.

5.11 Reporting of transactions to FIU or other competent authorities

NBFCs would be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of the NBFCs' customer related activities carried out by the service providers.

6. Outsourcing within a Group/ Conglomerate

6.1 In a group structure, NBFCs may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities, etc. Before entering into such arrangements with group entities, NBFCs shall have a Board approved policy and also service level agreements/ arrangements with their group entities, which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. Moreover the customers shall be informed specifically about the company which is actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed.

6.2 While entering into such arrangements, NBFCs shall ensure that these:

a. are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;

b. do not lead to any confusion to the customers on whose products/ services they are availing by clear physical demarcation of the space where the activities of the NBFC and those of its other group entities are undertaken;

c. do not compromise the ability to identify and manage risk of the NBFC on a stand-alone basis;

d. do not prevent the RBI from being able to obtain information required for the supervision of the NBFC or pertaining to the group as a whole; and

e. incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the RBI in relation to the activities of the NBFC.

6.3 NBFCs shall ensure that their ability to carry out their operations in a sound fashion would not be affected if premises or other services (such as IT systems, support staff) provided by the group entities become unavailable.

6.4 If the premises of the NBFC are shared with the group entities for the purpose of cross-selling, NBFCs shall take measures to ensure that the entity's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff/ agent in the NBFCs premises shall mention nature of arrangement of the entity with the NBFC so that the customers are clear on the seller of the product.

6.5 NBFCs shall not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that they are in any way responsible for the obligations of its group entities.

6.6 The risk management practices expected to be adopted by an NBFC while outsourcing to a related party (i.e. party within the Group/ Conglomerate) would be identical to those specified in Para 5 of this directions.

7. Off-shore outsourcing of Financial Services

7.1 The engagement of service providers in a foreign country exposes an NBFC to country risk -economic, social and political conditions and events in a foreign country that may adversely affect the NBFC. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the NBFC. To manage the country risk involve in such outsourcing activities, the NBFC shall take into account and closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based, both during the risk assessment process and on a continuous basis, and establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.

7.2 The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of the NBFC in a timely manner.

7.3 As regards the off-shore outsourcing of financial services relating to Indian Operations, NBFCs shall additionally ensure that

a) Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/ visits of NBFCs internal and external auditors.

b) The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the NBFC in India.

c) The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the NBFC simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the NBFC).

d) The jurisdiction of the courts in the off shore location where data is maintained does not extend to the operations of the NBFC in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India and

e) All original records continue to be maintained in India.

Annex XX

Regulatory Guidance on Implementation of Indian Accounting Standards by NBFCs[37]

The responsibility of preparing and ensuring fair presentation of the financial statements of a NBFC vests primarily with its Board of Directors. The Reserve Bank, expects a high quality implementation of Ind AS which will require detailed analysis, application of judgment and detailed documentation to support judgments. These guidelines focus on the need to ensure consistency in the application of the accounting standards in specific areas, including asset classification and provisioning, and provide clarifications on regulatory capital in the light of Ind AS implementation. It may be noted that these instructions and guidelines relate to specific prudential aspects of Ind AS implementation by NBFCs and are not meant to provide a comprehensive commentary on the accounting standards or comprehensive technical interpretation of the standards, nor intended to cover all possible situations. Accordingly, with respect to matters not dealt with in this Annex, NBFCs are required to refer to the notified accounting standards, application guidance, educational material and other clarifications issued by the Institute of Chartered Accountants of India (ICAI).

1. Governance Framework

(a) In view of the criticality of the nature of the business model in determining the classification of financial assets and restrictions on subsequent reclassification, NBFCs are advised to put in place Board approved policies that clearly articulate and document their business models and portfolios. NBFCs shall also articulate the objectives for managing each portfolio.

(b) NBFCs shall frame their policy for sales out of amortised cost business model portfolios and disclose the same in their notes to financial statements.

(c) The Reserve Bank expects the Board of Directors to approve sound methodologies[38] for computation of Expected Credit Losses(ECL) that address policies, procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile

[37] NBFCs that are required to implement Ind AS in terms of Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time

[38] NBFCs may draw reference to Guidance on Credit Risk and Accounting for Expected Credit Losses issued by Basel Committee on Banking Supervision (BCBS) in December 2015, which is structured around 11 principles out of which first eight principles deal with supervisory guidance and inter-alia cover Board/Senior Management’s responsibilities, adoption of sound methodologies for credit risk measurement, disclosure requirements etc.

specific to the NBFC. The parameters and assumptions considered as well as their sensitivity to the ECL output should be documented. NBFCs are advised to not make changes in the parameters, assumptions and other aspects of their ECL model for the purposes of profit smoothening. The rationale and justification for any change in the ECL model should be documented and approved by the Board. Similarly, any adjustments to the model output (i.e. a management overlay) should be approved by the Audit Committee of the Board (ACB) and its rationale and basis should be clearly documented.

(d) Ind AS 109 does not explicitly define default[39], but requires entities to define default in a manner consistent with that used for internal credit risk management. It is recommended that the definition of default adopted for accounting purposes is guided by the definition used for regulatory purposes. The ACB should approve the classification of accounts that are past due beyond 90 days but not treated as impaired, with the rationale for the same clearly documented. Further, the number of such accounts and the total amount outstanding and the overdue amounts should be disclosed in the notes to the financial statements.

(e) Regardless of the way in which the NBFC assesses significant increase in credit risk, there is a rebuttable presumption under Ind AS 109 that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Ind AS 109 also permits that an NBFC can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. NBFCs should educate their customers on the need to make payments in a timely manner. However, in limited circumstances, where NBFCs do rebut the presumption, it should be done only with clear documentation of the justification for doing so. All such cases shall be placed before the ACB. NBFCs shall not defer the recognition of significant increase in credit risk for any exposure that is overdue beyond 60 days.

[39] Para B5.5.37 of Ind AS 109 states that "…an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument."

2. Prudential Floor for ECL

(a) NBFCs shall hold impairment allowances as required by Ind AS. In parallel, NBFCs shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard as well as restructured assets, NPA ageing, etc. A comparison (as per the template in **Appendix**) between provisions required under IRACP and impairment allowances made under Ind AS 109 should be disclosed by NBFCs in the notes to their financial statements to provide a benchmark to their Boards, RBI supervisors and other stakeholders, on the adequacy of provisioning for credit losses.

(b) Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), NBFCs shall appropriate the difference from their net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI.

(c) The requirement for 'Impairment Reserve' shall be reviewed, going forward.

3. Computation of Regulatory Capital and Regulatory Ratios

(a) In determining 'owned funds' , 'net owned funds' and 'regulatory capital', NBFCs shall be guided by the following:

i) Any net unrealised gains arising on fair valuation of financial instruments, including such gains arising on transition to Ind AS, should not be included in owned funds whereas all such net losses should be considered. In determining the net unrealised gains for reduction from owned funds, NBFCs should categorise financial assets measured at fair value into two categories viz.

A. Investments in shares of other NBFCs and in shares, debentures, bonds, etc. in Group companies that are required to be reduced while determining Tier I Capital as defined in paragraph 2(xxxii) of the Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; and

B. Others

While netting may be done within the aforementioned categories, net gains from one category should not be offset against losses in the other category. Unrealized gains/losses shall be considered net of the effect of taxation.

ii) Any unrealised gains or losses recognised in equity due to (a) own credit risk and (b) cash flow hedge reserve shall be derecognised while determining owned funds.

iii) The unrealised gain/loss on a derivative transaction undertaken for hedging may be offset against the unrealised loss/gain recognized in the capital (either through Profit or Loss or through Other Comprehensive Income) on the corresponding underlying hedged instrument. If after such offset and netting with unrealised gains/losses on other financial instruments, there are still net unrealised gains, the same should be excluded from regulatory capital.

iv) Since unrealised gains on category A have been excluded in computation of owned fund, NBFCs shall reduce the lower of acquisition cost or fair value of investments/advances in subsidiaries/other group companies and other NBFCs while determining Tier I capital as specified in paragraph 2(xxxii) of the aforementioned Master Directions. Net unrealised gains on Category B (i.e. 'Others') to the extent they have been excluded in regulatory capital, shall also be reduced from risk weighted assets.

v) Where NBFCs use fair value as deemed cost at the date of transition with respect to Property, Plant and Equipment (PPE) in terms of Ind AS 101, and the difference between the deemed cost and the current carrying cost is adjusted directly in retained earnings, any fair value gains upon such transition shall be reckoned as Tier II capital for NBFCs at a discount of 55 percent.

vi) 12 month expected credit loss (ECL) allowances for financial instruments i.e. where the credit risk has not increased significantly since initial recognition, shall be included under general provisions and loss reserves in Tier II capital within the limits specified by extant regulations. Lifetime ECL shall not be reckoned for regulatory capital (numerator) while it shall be reduced from the risk weighted assets.

vii) Securitised assets not qualifying for de-recognition under Ind AS due to credit enhancement given by the originating NBFC on such assets shall be risk weighted at zero percent. However, the NBFC shall reduce 50 per cent of the amount of credit enhancement given from Tier I capital and the balance from Tier II capital.

(b) Regulatory ratios, limits and disclosures shall be based on Ind AS figures. Impaired assets and restructured assets shall be considered as non-performing assets (NPA) for calculation of NPA ratios.

Appendix

Template for Disclosure in Notes to Financial Statements

Asset Classification as per RBI Norms	Asset classification as per Ind AS 109	Gross Carrying Amount as per Ind AS	Loss Allowances (Provisions) as required under Ind AS 109	Net Carrying Amount	Provisions required as per IRACP norms	Difference between Ind AS 109 provisions and IRACP norms
(1)	(2)	(3)	(4)	(5)=(3)-(4)	(6)	(7) = (4)-(6)
Performing Assets						
Standard	Stage 1					
	Stage 2					
Subtotal						
Non-Performing Assets (NPA)						
Substandard	Stage 3					
Doubtful - up to 1 year	Stage 3					
1 to 3 years	Stage 3					
More than 3 years	Stage 3					
Subtotal for doubtful						
Loss	Stage 3					
Subtotal for NPA						
Other items such as guarantees, loan commitments, etc. which are in the scope of Ind AS 109 but not covered under current Income Recognition, Asset Classification and Provisioning (IRACP) norms	Stage 1					
	Stage 2					
	Stage 3					
Subtotal						
Total	**Stage 1**					
	Stage 2					
	Stage 3					
	Total					

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