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 – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Reserve Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Non-Banking Financial Company from being conducted in a manner detrimental to the interest of investors and depositors or in any manner prejudicial to the interest of such NBFCs, and in exercise of the powers conferred under sections 45JA, 45K, 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, in supersession of the Non-Banking Financial Company–Non-Systemically Important Non-Deposit taking (Reserve Bank) Directions, 2016 and Non-Banking Financial Company–Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016**,** Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (the Directions), hereinafter specified.

(J P Sharma)
Chief General Manager

Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

Department of Regulation

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Section I
Introduction

Chapter I
Preliminary

1. Short Title and Commencement

1.1 These Directions shall be called the **Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023**.

1.2 These Directions shall come into force with immediate effect.

2. [1]Regulatory Structure under Scale Based Regulation

2.1 Regulatory structure for Non-Banking Financial Companies (NBFCs) shall comprise of four layers based on their size, activity and perceived riskiness. NBFCs in the lowest layer shall be known as NBFCs-Base Layer (NBFCs-BL). NBFCs in middle layer and upper layer shall be known as NBFCs-Middle Layer (NBFCs-ML) and NBFCs-Upper Layer (NBFCs-UL), respectively. The Top Layer is ideally expected to be empty and will be known as NBFCs-Top Layer (NBFCs-TL).

Details of NBFCs populating the various layers shall be as prescribed in paragraphs 2.2 to paragraphs 2.6 below:

2.2 Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹1,000 crore and (b) NBFCs undertaking the following activities - (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFC not availing public funds and not having any customer interface[2].

2.3 Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFCs-D), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1,000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealer (SPD), (ii) Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC), (iii) Core

[1] Vide circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021.
[2] Public funds and customer interface as defined in these Directions.

Investment Company (CIC), (iv) Housing Finance Company (HFC) and (v) Non-Banking Financial Company-Infrastructure Finance Company (NBFC-IFC).

2.4 Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Annex I to these Directions. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

2.5 Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

2.6 Categorisation of NBFCs carrying out specific activity

As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the NBFCs.

2.6.1 NBFC-P2P, NBFC-AA, NOFHC and NBFC not availing public funds and not having any customer interface will always remain in the Base Layer of the regulatory structure.

2.6.2 NBFC-D, CIC, NBFC-IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.

2.6.3 The remaining NBFCs, viz., NBFC-Investment and Credit Companies (NBFC-ICCs), NBFC-Micro Finance Institutions (NBFC-MFIs), NBFC-Factors and Mortgage Guarantee Companies (MGCs) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.

2.6.4 Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

2.7 References to NBFC-ND, NBFC-ND-SI and NBFC-D

From October 01, 2022, all references to NBFC-ND (i.e., non-systemically important non-deposit taking NBFC) shall mean NBFC-BL and all references to NBFC-D (i.e., deposit

taking NBFC) and NBFC-ND-SI (systemically important non-deposit taking NBFC) shall mean NBFC-ML or NBFC-UL, as the case may be[3].

2.8 Multiple NBFCs in a Group - Classification in Middle Layer

2.8.1 NBFCs that are part of a common Group or are floated by a common set of promoters shall not be viewed on a standalone basis. The total assets of all the NBFCs[4] in a Group shall be consolidated to determine the threshold for their classification in the Middle Layer.

2.8.2 If the consolidated asset (consolidation as per paragraph 2.8.1 above) size of the NBFCs in the Group is ₹1000 crore and above, then each NBFC-ICC, NBFC-MFI, NBFC-Factor and MGC lying in the Group shall be classified as an NBFC in the Middle Layer and consequently, regulations as applicable to the Middle Layer shall be applicable to them. However, NBFC-D, within the Group, if any, shall also be governed under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Direction, 2016. Illustrative examples are provided in paragraph 136 of the Directions.

2.8.3 Statutory Auditors are required to certify the asset size (as on March 31) of all the NBFCs in the Group every year. The certificate shall be furnished to the Department of Supervision of the Reserve Bank under whose jurisdiction the NBFCs are registered.

2.8.4 Provisions contained in paragraph 2.8 shall not be applicable for classifying an NBFC in the Upper Layer.

2.9 Criteria for deciding NBFC-ML status

2.9.1 Once an NBFC reaches an asset size of ₹1,000 crore or above, it shall be subject to the regulatory requirements as per Section III of these Directions, 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 NBFCs-ML from time to time, as and when they attain an asset size of ₹1,000 crore, irrespective of the date on which such size is attained.

2.9.2 In a dynamic environment, the asset size of a NBFCs can fall below ₹1,000 crore in a given month, which may be due to temporary fluctuations and not due to actual

[3] Existing NBFC-ND-SI having asset size of ₹500 crore and above but below ₹1000 crore (except that necessarily featuring in Middle Layer) will be known as NBFC-BL.

[4] Including NBFCs which will always remain in Base Layer – NBFC-P2P, NBFC-AA, NOFHC and NBFC without public funds and customer interface.

downsizing. In such a case the NBFC shall continue to meet the reporting requirements and shall comply with the extant directions as applicable to NBFC-ML, till the submission of its next audited balance sheet to the Reserve Bank and a specific dispensation from the Reserve Bank in this regard.

3. Applicability as per categories of NBFCs

3.1 The provisions of these Directions shall apply to the following:

3.1.1 Every NBFC-D registered with the Reserve Bank under the provisions of the RBI Act, 1934;

3.1.2 Every NBFC-ICC registered with the Reserve Bank under the provisions of the RBI Act, 1934;

3.1.3 Every NBFC-Factor registered with the Reserve Bank under section 3 of the Factoring Regulation Act, 2011 and every NBFC-ICC registered with the Reserve Bank under section 3 of the Factoring Regulation Act, 2011;

3.1.4 Every NBFC-MFI registered with the Reserve Bank under the provisions of the RBI Act, 1934;

3.1.5 Every NBFC-IFC registered with the Reserve Bank under the provisions of the RBI Act, 1934;

3.1.6 Every IDF-NBFC registered with the Reserve Bank under the provisions of the RBI Act, 1934.

3.2 These Directions shall apply to an NBFC being a Government company as defined under clause (45) of section 2 of the Companies Act, 2013 (Act 18 of 2013).

3.3 Specific directions applicable to specific categories of NBFCs registered as NBFC-Factor and NBFC-ICC registered under Factoring Regulation Act, 2011, IDF-NBFC and NBFC-MFI are as provided under respective Sections in these Directions. Instructions contained for specific categories of NBFCs in respective Sections are in addition and not in substitution to the relevant instructions contained in these Directions.

3.4 The Directions under Chapter IV, Chapter V, paragraphs 4.1.1, 45, 66 and 67 shall not apply to NBFCs not availing public funds and not having any customer interface.

3.5 NBFCs availing public funds but not having any customer interface are exempt from the applicability of paragraphs 4.1.1, 45, 66 and 67 of the Directions.

3.6 NBFCs-BL having customer interface but not availing public funds are exempt from the applicability of Chapter IV and Chapter V of the Directions.

4. Applicability of other Directions issued by Department of Regulation

4.1 NBFCs shall ensure compliance with the applicable instructions, as prescribed in the following Directions:

4.1.1 Master Direction - Know Your Customer (KYC) Direction, 2016, as amended from time to time.

4.1.2 Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021, as amended from time to time.

4.1.3 Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021, as amended from time to time.

4.1.4 Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, as amended from time to time.

4.1.5 Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022, as amended from time to time.

4.2 These Directions consolidate the regulations as issued by Department of Regulation of the Reserve Bank. Any other directions/guidelines issued by any other Department of the Reserve Bank, as applicable to an NBFC shall be adhered to.

4.3 The categories of NBFCs, mentioned below, shall be subject to extant regulations governing them, as under:

4.3.1 NBFC-P2P - Master Directions - Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017, as amended from time to time.

4.3.2 NBFC-AA - Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016, as amended from time to time.

4.3.3 CIC - Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016, as amended from time to time.

4.3.4 SPD - Master Direction - Standalone Primary Dealers (Reserve Bank) Directions, 2016, as amended from time to time.

4.3.5 MGC - Master Directions - Mortgage Guarantee Companies (Reserve Bank) Directions, 2016, as amended from time to time.

4.3.6 HFC - Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, as amended from time to time.

Chapter II

Definitions

5. Definition

5.1 For the purpose of these directions, unless the context otherwise requires:

5.1.1 “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.

5.1.2 “Carrying cost” means book value of the assets and interest accrued thereon but not received.

5.1.3 “Company” means a company registered under section 3 of the Companies Act, 1956 or the corresponding provision under the Companies Act, 2013.

5.1.4 “Companies in the group” means 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 20 percent and above.

5.1.5 "Control" shall have the same meaning as 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.

5.1.6 “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.

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

5.1.8 “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 1 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.

5.1.9 "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:

(i) in case of predominantly manufacturing company, eight percent;

(ii) in case of predominantly trading company, ten percent; and

(iii) in case of any other company, including NBFC, twelve percent.

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

5.1.10 "Fair value" means the mean of the earning value and the breakup value.

5.1.11 "Group of connected counterparties" means two or more (natural or legal) persons who satisfy at least one of the following conditions:

(i) Control relationship: one person directly or indirectly, has control over the other(s), or such persons are under the common control of a third party (irrespective of whether the NBFC has exposure to the third party or not). Control relationship criteria is automatically satisfied if one entity owns more than 50 percent of the voting rights of the other entity;

(ii) Economic interdependence: In establishing connectedness based on economic interdependence, NBFCs must consider, at a minimum, the following criteria:

(a) Where 50% or more of one counterparty's gross receipts or gross expenditure (on an annual basis) is derived from transactions with the other counterparty;

(b) Where one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant that the guarantor is likely to default if a claim occurs;

(c) Where a significant part of one counterparty's production/output is sold to another counterparty, which cannot easily be replaced by other customers;

(d) When the expected source of funds to repay the loans of both counterparties is the same and neither counterparty has another independent source of income from which the loan may be serviced and fully repaid;

(e) Where it is likely that the financial problems of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;

(f) Where the insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other(s);

(g) When two or more counterparties rely on the same source for the majority of their funding and, in the event of the common provider's default, an alternative provider cannot be found - in this case, the funding problems of one counterparty are likely to spread to another due to a one-way or two-way dependence on the same main funding source.

(h) In order to avoid cases where a thorough investigation of economic interdependencies will not be proportionate to the size of the exposures, NBFCs are expected to identify possible connected counterparties on the basis of economic interdependence in all cases where the sum of all exposures to one individual counterparty exceeds 5% of the eligible capital base, and not in other cases.

5.1.12 "Hybrid debt" means capital instrument which possesses certain characteristics of equity as well as of debt.

5.1.13 "IDF-NBFC" means a non-deposit taking NBFC which is permitted to

(i) refinance post commencement operations date (COD) infrastructure projects that have completed at least one year of satisfactory commercial operations; and

(ii) finance toll operate transfer (TOT) projects as the direct lender.

5.1.14 "Infrastructure lending" means a credit facility extended by an NBFC 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.

5.1.15 "Large Exposure" means the sum of all exposure values of a NBFC-UL measured in terms of paragraph 110.6 of these Directions, to a counterparty and/or a group of

connected counterparties, if it is equal to or above 10 percent of the NBFC-UL's eligible capital base.

5.1.16 "Long Term Investment" means an investment other than a current investment.

5.1.17 "Major shareholder" means a person holding 10% or more of the paid-up share capital or five crore rupees in paid-up shares, whichever is lower.

5.1.18 "NBFC-Factor" means an NBFC as defined in clause (f) of section 45-I of the RBI Act, 1934, which has its principal business as mentioned in paragraph 123 of these Directions and has been granted a certificate of registration under section 3 of the Factoring Regulation Act, 2011.

5.1.19 "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 NBFCs as defined by the Reserve Bank in any of its Master Directions.

5.1.20 "NBFC-IFC" means a non-deposit taking NBFC which has a minimum of 75 percent of its total assets deployed towards infrastructure lending.

5.1.21 "NBFC-MFI" means a non-deposit taking NBFC which has a minimum of 75 percent of its total assets deployed towards "microfinance loans" as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

5.1.22 "Net Asset Value" means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme.

5.1.23 "Net Book Value" means:

(i) 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 15.2 of these directions.

(ii) 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.

5.1.24 "NOFHC" means a non-deposit taking NBFC referred to in the "Guidelines for Licensing of New Banks in the Private Sector" dated February 22, 2013, issued by the Reserve 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 Reserve Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

5.1.25 “Owned Fund” means aggregate of

(i) paid up equity capital,

(ii) preference shares which are compulsorily convertible into equity,

(iii) free reserves,

(iv) balance in share premium account and

(v) capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset;

as reduced by

(vi) accumulated loss balance,

(vii) book value of intangible assets and

(viii) deferred revenue expenditure, if any.

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

5.1.27 “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 five years from the date of issue.

5.1.28 "RBI Act, 1934" means the Reserve Bank of India Act, 1934 (Act 2 of 1934).

5.1.29 “Relative” shall have the meaning assigned to it under clause 77 of section 2 of the Companies Act, 2013.

5.1.30 "Reserve Bank" means the Reserve Bank of India constituted under section 3 of the RBI Act, 1934.

5.1.31 The term “Senior Officer” shall have the same meaning as assigned to “Senior Management” under section 178 of the Companies Act, 2013.

5.1.32 "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
Up to one year	100%
More than one year but up to two years	80%
More than two years but up to three years	60%
More than three years but up to four years	40%
More than four years but up to five years	20%

to the extent such discounted value does not exceed fifty percent of Tier 1 capital.

5.1.33 "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 percent of the paid-up capital of the company; or the capital subscribed by all the partners of a partnership firm.

5.1.34 "Tier 1 capital" for NBFCs (except NBFCs-BL) is the sum of

(i) Owned fund as reduced by investment in shares of other NBFCs 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 percent of the owned fund; and

(ii) Perpetual debt instruments issued by a non-deposit taking NBFCs in each year to the extent it does not exceed 15 percent of the aggregate Tier 1 capital of such company as on March 31 of the previous accounting year.

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 1 capital.

5.1.35 "Tier 2 capital" for NBFCs (except NBFCs-BL) is the sum of

(i) Preference shares other than those which are compulsorily convertible into equity;

(ii) Revaluation reserves at discounted rate of 55 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

(vi) Perpetual debt instruments issued by a non-deposit taking NBFC which is in excess of what qualifies for Tier 1 capital;

to the extent the aggregate does not exceed Tier 1 capital.

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital.

5.2 Words or expressions used in these Directions but not defined herein and defined in the RBI Act, 1934 shall have the same meaning as assigned to them in the RBI Act, 1934. Any other words or expressions not defined in the RBI Act, 1934 shall have the same meaning as assigned to them in the Factoring Regulation Act, 2011. Any other words or expressions used and not defined in these directions or in the RBI Act, 1934 or Factoring Regulation Act, 2011 or any of the Directions issued by the Reserve Bank, shall have the meanings respectively assigned to them under the Companies Act, 1956 or the Companies Act, 2013 (Act 18 of 2013) as the case may be.

Section II

Regulations applicable for NBFC-BL

Chapter III

Registration

6. Net Owned Fund Requirement

6.1 In exercise of the powers conferred under clause (b) of sub-section (1) of section 45IA of the RBI Act,1934 and all the powers enabling it in that behalf, the Reserve Bank, hereby specifies ₹10 crore as the Net Owned Fund (NOF) required for an NBFC-ICC, NBFC-MFI and NBFC-Factor to commence or carry on the business of non-banking financial institution. For NBFC-P2P, NBFC-AA, and NBFC not availing public funds and not having any customer interface, the NOF shall be ₹2 crore. For NBFC-IFC and IDF-NBFC, the NOF shall be ₹300 crore.

6.2 The following glide path is provided for the existing NBFCs, viz., NBFC-ICC, NBFC-MFI[5] and NBFC-Factor to achieve the NOF of ₹10 crore:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹2 crore	₹5 crore	₹10 crore
NBFC-MFI	₹5 crore (₹2 crore in NE Region)	₹7 crore (₹5 crore in NE Region)	₹10 crore
NBFC-Factor	₹5 crore	₹7 crore	₹10 crore

6.3 NBFCs failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the Certificate of Registration (CoR) as NBFCs.

7. Investment through Alternative Investment Funds - Calculation of NOF of an NBFC

In terms of section 45IA of the RBI Act, 1934, the investments/loans/exposures to the subsidiaries, companies in the same group and other NBFCs, in excess of 10 per cent of aggregate of the paid-up equity capital and free reserves are deducted to arrive at NOF. In the context of arriving at the NOF figure, investment made by the NBFC in entities of the same group, either directly or indirectly, through an Alternative Investment Fund (AIF), shall be treated alike, provided the funds in the AIF (in company form) have come from NBFC to the extent of 50 per cent or more; or where the beneficial owner in the case of AIF (in trust form) is the NBFC and 50 per cent of the funds in the trust have come from

[5] It is clarified that there shall be no distinction in the NOF requirement for NBFCs registered in the North East Region.

the 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.

8. [6]Investment from FATF non-compliant jurisdictions

8.1 Investments in NBFCs from FATF non-compliant jurisdictions shall not be treated at par with those from the compliant[7] jurisdictions. New investors from or through non-compliant FATF jurisdictions, whether in existing NBFCs or in companies seeking 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 percent of the voting power (including potential voting power[8]) of the NBFC.

8.2 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.

[6] Vide circular DOR.CO.LIC.CC.No.119/03.10.001/2020-21 dated February 12, 2021.

[7] 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.

[8] 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 percent of the existing voting powers and (ii) 20 percent of existing and potential voting powers assuming those potential voting rights have materialised.

Chapter IV
Prudential Regulation

9.1 Leverage Ratio- The leverage ratio of NBFCs (except NBFC-MFIs, NBFCs-ML and above) shall not be more than seven at any point of time.

Note: Leverage ratio means the total Outside Liabilities divided by Owned Fund.

9.2 Tier I capital - NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent of more of their financial assets) shall maintain a minimum Tier 1 capital of 12 percent of aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items. The treatment to on-balance and off-balance sheet assets for capital adequacy shall be as provided in paragraphs 84 and 85 of these Directions respectively. These NBFCs shall also adhere to provisions in paragraph 86 of the Directions on treatment of deferred tax assets and deferred tax liabilities for computation of capital.

10. [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 II 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.

11. Accounting for Investments

11.1 Quoted current investments shall, for the purpose of valuation, be grouped into the following categories, viz.

(i) equity shares,

(ii) preference shares,

(iii) debentures and bonds,

(iv) Government securities including treasury bills,

[9] Vide circulars DOR.(NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020 and DOR (NBFC).CC.PD.No.116/ 22.10.106/ 2020-21 dated July 24, 2020

(v) units of mutual fund, and

(vi) others.

11.2 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.

11.3 Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. However, 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.

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

11.5 Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

11.6 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.

11.7 Commercial papers shall be valued at carrying cost.

11.8 A long-term investment shall be valued in accordance with the applicable Accounting Standards.

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.

12. Income Recognition

12.1 The income recognition shall be based on recognised accounting principles.

12.2 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.

12.3 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'. For NBFCs-ML and NBFCs-UL, this shall be evaluated against the definition of 'restructuring' provided in paragraph 1 of the Annex-1 to the circular on 'Prudential Framework for Resolution of Stressed Assets' dated June 7, 2019.

12.4 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.

13. Income from Investments

13.1 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 NBFC's right to receive payment is established.

13.2 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.

13.3 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.

14. Asset Classification

The asset classification norms as given below shall apply to 'applicable' NBFCs (i.e. except NBFCs-ML and above and microfinance loans of NBFC-MFIs).

Applicable 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.

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.

14.1.1 "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.

14.1.2 "Sub-standard asset" shall mean

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

(ii) 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 17 of these Directions;

14.1.3 "Doubtful asset" shall mean

(i) a term loan, or

(ii) a lease asset, or

(iii) a hire purchase asset, or

(iv) any other asset,

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

14.1.4 "Loss asset" shall mean

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

(ii) 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.

14.2 The extant NPA classification norm stands changed to the overdue period of more than 90 days for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under –

NPA Norms	**Timeline**
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

Note: The glide path will not be applicable to NBFCs which are already required to follow the 90-day NPA norm.

14.3 "Non-Performing Asset" (NPA) for applicable NBFCs shall mean:

(i) an asset, in respect of which, interest has remained overdue for a period of more than 180 days.

(ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 180 days or on which interest amount remained overdue for a period of more than 180 days.

(iii) a demand or call loan, which remained overdue for a period of more than 180 days from the date of demand or call or on which interest amount remained overdue for a period of more than 180 days.

(iv) a bill which remains overdue for a period of more than 180 days.

(v) 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 more than 180 days.

(vi) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 180 days.

(vii) the lease rental and hire purchase instalment, which has become overdue for a period of more than 180 days.

(viii) 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.

Note: The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined in paragraph 14.2.

14.4 [10] The following shall apply to applicable NBFCs:

14.4.1 An amount is to be treated as overdue if it is not paid on the due date fixed by the NBFCs. 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 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.

14.4.2 NBFCs shall recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the categories specified below.

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

[10] 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

Note: The period of SMA-2 shall be adjusted as per glide path outlined in paragraph 14.2.

14.4.3 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.

14.4.4 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. Illustrations for the same are provided in paragraph 137 of the Directions.

14.4.5 Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. 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.

14.4.6 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.

15. Provisioning Requirements

The provisioning requirements as given below shall apply to every NBFC (except microfinance loans of NBFC-MFIs).

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:

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

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

<table>
<tr><td>Loss Assets</td><td colspan="2">The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for.</td></tr>
<tr><td rowspan="6">Doubtful Assets</td><td colspan="2">(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;</td></tr>
<tr><td colspan="2">(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstanding) shall be made on the following basis:</td></tr>
<tr><td>Period for which the asset has been considered as doubtful</td><td>% of provision</td></tr>
<tr><td>Up to one year</td><td>20</td></tr>
<tr><td>One to three years</td><td>30</td></tr>
<tr><td>More than three years</td><td>50</td></tr>
<tr><td>Sub-standard assets</td><td colspan="2">A general provision of 10% of total outstanding shall be made.</td></tr>
</table>

15.2 Hire purchase and leased assets

The provisioning requirements in respect of hire purchase and leased assets shall be as under:

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

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

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

Explanation: For the purpose of this paragraph,

(i) 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 percent per annum on a straight-line method; and

(ii) in the case of second-hand asset, the original cost shall be the actual cost incurred for acquisition of such second-hand asset.

15.2.2 **Additional provision for hire purchase and leased assets**

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

(i)	Where hire charges or lease rentals are overdue up to 12 months	Nil
(ii)	Where hire charges or lease rentals are overdue for more than 12 months up to 24 months	10% of the net book value
(iii)	Where hire charges or lease rentals are overdue for more than 24 months but up to 36 months	40% of the net book value
(iv)	Where hire charges or lease rentals are overdue for more than 36 months but up to 48 months	70% of the net book value
(v)	Where hire charges or lease rentals are overdue for more than 48 months	100% of the net book value

15.2.3 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 NBFC in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under paragraph 15.2.1 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 paragraph 15.2.2 above.

2. The amount of security deposits kept by the borrower with the 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 paragraph 15.2.2 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 clause (ii) of paragraph 14.1.2 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 paragraph 27.1.2 of these Directions.

6. All financial leases written on or after April 1, 2001 shall attract the provisioning requirements as applicable to hire purchase assets.

16. Standard asset provisioning (except NBFC-ML and above)

NBFC-BL shall make provision for standard assets at 0.25 percent 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.

17. Projects under implementation

For projects under implementation, the instructions in paragraph 3 of Annex III shall be applicable to all NBFCs. In addition, guidelines issued to banks on deferment of date of commencement of commercial operations (DCCO) for projects in commercial real estate (CRE) sector vide circular ‘Prudential Norms on Income Recognition, Asset Classification

and Provisioning Pertaining to Advances - Projects under Implementation' dated February 07, 2020 have been extended, mutatis mutandis, to all NBFCs.

18. Prudential Framework for Resolution of Stressed Assets

All NBFCs-D and non-deposit taking NBFCs of asset size of ₹500 crore and above shall follow the instructions issued vide circular 'The Prudential Framework for Resolution of Stressed Assets' dated June 07, 2019, as amended from time to time. It may be noted that with reference to paragraph 6 of the same circular, the basis of classification of SMA categories shall be as specified in paragraph 87.2.2 of these directions.

19. [11]Framework for Compromise Settlements and Technical Write-offs

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

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

The Reserve 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, as amended from time to time. These guidelines shall be applicable, mutatis mutandis, to all 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.

21. Non-Cooperative Borrowers

21.1 All NBFC-Factors, NBFCs-D and non-deposit taking NBFCs of asset size of ₹500 crore and above (Notified NBFCs) shall identify "non-cooperative borrowers". A "non-cooperative borrower" is defined as one who does not provide necessary information required by a lender to assess its financial health even after two reminders; or denies access to securities etc. as per terms of sanction or does not comply with other terms of

[11] Vide circular DOR.STR.REC.20/21.04.048/2023-24 dated June 08, 2023

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.

21.2 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 as mentioned in paragraph 1.2.1 of Annex IV 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 percent, 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.

22. Norms for restructuring of advances

Norms for restructuring of advances by non-deposit taking NBFCs with asset size less than ₹500 crore are as set forth in Annex III.

23. 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 non-deposit taking NBFCs with asset size less than ₹500 crore shall be as set forth in Annex V.

24. Refinancing of Project Loans

24.1 Non-deposit taking NBFCs with asset size less than ₹500 crore 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 percent 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.

24.2 For existing project loans where the aggregate exposure of all institutional lenders is minimum ₹1,000 crore, non-deposit taking NBFCs with asset size less than ₹500 crore 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 percent 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 percent 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 NBFCs.

24.3 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.

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

25. 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 in Annex IV shall apply to non-deposit taking NBFCs with asset size less than ₹500 crore. The Department of Regulation of the Reserve Bank has made certain modifications to the Framework vide circulars 'Framework for Revitalising Distressed Assets in the Economy – Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)' dated October 21, 2014, 'Non-Cooperative Borrowers' dated December 22, 2014, 'Strategic Debt Restructuring Scheme' dated June 8, 2015, 'Framework for Revitalising Distressed Assets in the Economy – Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)' dated September 24, 2015 and 'Review of Prudential Guidelines - Revitalising Stressed Assets in the Economy' dated February 25, 2016. The modifications in the Framework made vide the above-mentioned circulars shall also apply, mutatis mutandis, to non-deposit taking NBFCs with asset size less than ₹500 crore.

Note: Instructions given under paragraphs 22 to 25 are applicable to non-deposit taking NBFCs with asset size less than ₹500 crore only and hence, these instructions are not applicable to NBFCs-ML and above.

26. Guidelines on Liquidity Risk Management Framework

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 VI of these Directions. However, these guidelines will not apply to Type I[12] NBFCs, NOFHCs and SPDs. 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.

[12] As per Press Release dated June 17, 2016.

27. Disclosures in Financial Statements – Notes to Accounts

NBFCs are required to make disclosures in their financial statements in accordance with the guidelines in these Directions, applicable accounting standards, laws and regulations.

27.1.1 NBFCs 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.

27.1.2 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.

27.1.3 Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the NBFCs.

27.1.4 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.

27.2 The additional disclosure requirements for NBFCs are outlined in **Section I** of Annex VII.

27.3 These disclosures outlined in Annex VII are in addition to and not in substitution of the disclosure requirements specified under other laws, regulations, or accounting and financial reporting standards. More comprehensive disclosures than the minimum required are encouraged, especially if such disclosures significantly aid in the understanding of the financial position and performance.

27.4 Annex VII specifies the applicability of specific disclosure requirements to specific NBFC layers. It may be noted that disclosure requirements applicable to lower layers of NBFCs will be applicable to NBFCs in higher layers. These disclosure requirements detailed in Annex VII shall be effective for annual financial statements for year ending March 31, 2023 and onwards.

28. Policy on Demand/Call Loans

28.1 The Board of Directors of NBFCs granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

28.2 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 basis.

(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.

29. Investment Policy

29.1 The Board of Directors of NBFCs shall frame investment policy for the company and shall implement the same.

29.2 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.

29.3 Investments in securities shall be classified into current and long term, at the time of making each investment.

29.4 In case of inter-class transfer –

(i) there shall be no such transfer on ad-hoc basis.

(ii) 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.

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

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

(v) 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.

30. Accounting year

30.1 NBFCs shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever an 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 Reserve Bank before approaching the Registrar of Companies for this purpose.

30.2 Even in cases where the Reserve Bank and the Registrar of Companies grant extension of time, the NBFC shall furnish to the Reserve Bank a proforma balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the said date. Every NBFC shall finalise its balance sheet within a period of 3 months from the date to which it pertains.

31. Schedule to the balance sheet

NBFCs shall append to its balance sheet as prescribed under the Companies Act, 2013, the particulars in the schedule as set out in Annex VIII.

Chapter V

Regulatory Restrictions and Limits

32. Credit/investment concentration norms for NBFCs

An 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 Annex I of "Guidelines for Licensing of New Banks in the Private Sector" dated February 22, 2013, issued by the Reserve Bank.

33. Declaration of dividends

NBFCs shall comply with the following guidelines to declare dividends.

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

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

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

(iii) Long term growth plans of the NBFC.

33.2 Only NBFCs that meet the following minimum prudential requirements shall declare dividend:

(i) NBFCs shall have met the minimum capital requirements (including leverage ratio wherever applicable) prescribed under these Directions in each of the last three[13] financial years including the financial year for which the dividend is proposed.

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

(ii) The net NPA ratio shall be less than six percent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.

(iii) NBFCs shall comply with the provisions of section 45-IC of the RBI Act, 1934.

(iv) 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.

33.3 NBFCs that meet the eligibility criteria specified in paragraph 33.2 above can declare dividend upto a dividend payout ratio of 50 percent. There will be no ceiling on dividend payout ratio for eligible NBFCs that do not accept public funds and have no customer interface.

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

(i) meets the applicable minimum capital requirement (including leverage ratio wherever applicable), as per these Directions, in the financial year for which it proposes to pay dividend, and

(ii) has net NPA of less than four percent as at the close of the said financial year.

33.5 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.

33.6 NBFCs, other than NBFCs-BL, declaring dividend shall report details of dividend declared during the financial year as per the format prescribed in Annex IX. The report shall be furnished within a fortnight after declaration of dividend to the Regional Office of the Department of Supervision of the Reserve Bank.

34. Ceiling on IPO Funding

There shall be a ceiling of ₹1 crore per borrower for financing subscription to Initial Public Offer (IPO). NBFCs can fix more conservative limits.

35. Loans against NBFC's own shares

No NBFC shall lend against its own shares.

36. Loans against security of shares

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

(i) maintain a Loan to Value (LTV) ratio of 50 percent for loans granted against the collateral of shares. LTV ratio of 50 percent is required to be maintained at all times. Any shortfall in the maintenance of the 50 percent 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 issued by SEBI as amended from time to time) as collateral for loans of value more than ₹5 lakh, subject to review by the Reserve 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 X.

37. Loans against security of single product - Gold Jewellery

37.1.1 All NBFCs shall

(i) maintain a Loan-to-Value (LTV) Ratio not exceeding 75 percent 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 37.3 below.

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

37.1.2 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.

37.2 Verification of the Ownership of Gold

37.2.1 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.

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

37.3 Standardization of Value of Gold accepted as collateral in arriving at LTV Ratio

The gold jewellery accepted as collateral by the NBFC shall be valued by the following method:

37.3.1 The gold jewellery accepted as collateral by the NBFC 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.

37.3.2 If the purity of the gold is less than 22 carats, the NBFC shall convert 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.

37.3.3 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.

37.3.4 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.

37.4 Auction

37.4.1 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.

37.4.2 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 percent 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.

37.4.3 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.

37.4.4 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.

37.5 Safety and security measures to be followed by NBFCs lending against collateral of gold jewellery

37.5.1 NBFCs, 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.

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

37.6 Opening Branches exceeding one thousand in number

NBFCs which are in the business of lending against collateral of gold jewellery, shall obtain prior approval of the Reserve Bank to open branches exceeding 1,000. However, NBFCs which already have more than 1000 branches shall approach the Reserve 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 VI

Governance Guidelines

38. Experience of the Board

Considering the need for professional experience in managing the affairs of the NBFCs, at least one of the directors shall have relevant experience of having worked in a bank/ NBFC.

39. Risk Management Committee

In order that the Board is able to focus on risk management, NBFCs shall constitute a Risk Management Committee (RMC) either at the Board or executive level. The RMC shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk and shall report to the Board.

40. Loans to directors, senior officers and relatives of directors

NBFCs shall have a Board approved policy on grant of loans to directors, senior officers and relatives of directors and to entities where directors or their relatives have major shareholding. The Board approved policy shall include a threshold beyond which loans to abovementioned persons shall be reported to the Board. Further, NBFCs shall disclose in their Annual Financial Statement, aggregate amount of such sanctioned loans and advances as per the template provided in the Annex XI.

41. Appointment of Statutory Central Auditors/Statutory Auditors

NBFCs shall adhere to the instructions contained in circular titled 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' dated April 27, 2021, as amended from time to time. However, non-deposit taking NBFCs with asset size below ₹1,000 crore have the option to continue with their extant procedure.

42. Acquisition/ Transfer of Control of NBFCs

42.1.1 An NBFC shall require prior written permission of the Reserve Bank for the following:

(i) Any takeover or acquisition of control of the NBFC, may or may not result in change of management;

(ii) Any change in the shareholding of the NBFC, including progressive increases over time, which would result in acquisition/ transfer of shareholding of 26 percent

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

(iii) Any change in the management of the NBFC which would result in change in more than 30 percent of the directors, excluding independent directors.

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

42.1.2 Notwithstanding paragraph 42.1.1, NBFCs shall continue to inform the Reserve Bank regarding any change in their directors/management.

42.2 Application for prior approval for acquisition/ transfer of control

42.2.1 NBFCs shall submit an application, in the company's letter head, for obtaining prior approval of the Reserve Bank, along with the following documents:

(i) information about the proposed directors/shareholders as per Annex XII;

(ii) sources of funds of the proposed shareholders acquiring the shares in the NBFC;

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

(iv) 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 Reserve Bank;

(v) 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

(vi) bankers' report on the proposed directors/ shareholders.

42.2.2 Applications in this regard shall be submitted to the Regional Office of the Department of Supervision of the Reserve Bank in whose jurisdiction the Registered Office of the NBFC is located.

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

42.3.1 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 NBFC and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the Reserve Bank.

42.3.2 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.

42.4 [14]Investment from FATF non-compliant jurisdictions

NBFCs shall also ensure compliance to the instructions as specified in the paragraph 8 of these directions.

43. Need for public notice before closure of the Branch/Office by NBFC

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.

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

NBFCs 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 Reserve Bank under whose jurisdiction it is registered.

[14] Vide circular DOR.CO.LIC.CC.No.119/03.10.001/2020-21 dated February 12, 2021.

Chapter VII

Fair Practices Code

45. Fair Practices Code

NBFCs having customer interface shall adopt the following guidelines:

For the purpose of this paragraph, the term 'personal loans' shall have the same meaning as defined in the Annex to the circular on 'XBRL Returns – Harmonization of Banking Statistics' dated January 04, 2018.

45.1 Applications for loans and their processing

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

45.1.2 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.

45.1.3 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.

45.2 Loan appraisal and terms/ conditions

45.2.1 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, NBFCs shall mention the penalties charged for late repayment in bold in the loan agreement.

45.2.2 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. 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.

45.3 [15]Penal charges in loan accounts

45.3.1 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.

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

45.3.3 NBFCs shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.

45.3.4 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.

45.3.5 The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges to non-individual borrowers for similar non-compliance of material terms and conditions.

45.3.6 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, in addition to being displayed on websites of NBFCs under Interest rates and Service Charges.

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

[15] Vide circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023.

45.3.8 The instructions in paragraph 45.3 shall come into effect from January 1, 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.

45.4 Disbursement of loans including changes in terms and conditions

45.4.1 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. 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.

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

45.4.3 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 NBFCs are entitled to retain the securities till the relevant claim is settled/paid.

45.5 [16]Responsible Lending Conduct – Release of movable/immovable property documents on repayment/ settlement of personal loans

It has been observed that the NBFCs follow divergent practices in release of movable/ immovable property documents upon receiving full repayment and closure of loan account leading to customer grievances and disputes. To address the issues faced by the borrowers and towards promoting responsible lending conduct among the NBFCs, the following instructions are issued:

45.5.1 Release of movable/immovable property documents

[16] Vide circular DoR.MCS.REC.38/01.01.001/2023-24 dated September 13, 2023.

(i) NBFCs shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/settlement of the loan account.

(ii) The borrower shall be given the option of collecting the original movable/ immovable property documents either from the banking outlet/branch where the loan account was serviced or any other office of the NBFC where the documents are available, as per her/his preference.

(iii) The timeline and place of return of original movable/immovable property documents shall be mentioned in the loan sanction letters issued on or after the effective date.

(iv) In order to address the contingent event of demise of the sole borrower or joint borrowers, NBFCs shall have a well laid out procedure for return of original movable/immovable property documents to the legal heirs. Such procedure shall be displayed on the website of NBFCs along with other similar policies and procedures for customer information.

45.5.2 Compensation for delay in release of movable/immovable property documents

(i) In case of delay in releasing of original movable/immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, NBFCs shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the NBFC, it shall compensate the borrower at the rate of ₹5,000 for each day of delay.

(ii) In case of loss/damage to original movable/immovable property documents, either in part or in full, NBFCs shall assist the borrower in obtaining duplicate/certified copies of the movable/immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated at clause (ii) above. However, in such cases, an additional time of 30 days will be available to the NBFCs to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).

(iii) The compensation provided under these directions shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law.

45.5.3 Applicability

The instructions in paragraph 45.5 shall be applicable to all cases where release of original movable/immovable property documents falls due on or after December 01, 2023.

45.6 [17]Reset of floating interest rate on Equated Monthly Instalments (EMI) based personal loans

45.6.1 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 external benchmark 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, 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 benchmark 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 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 (a) enhancement in EMI or elongation of tenor or for a combination of both options; and, (b) 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

[17] Vide circular DOR.MCS.REC.32/01.01.003/2023-24 dated August 18, 2023

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. NBFCs shall ensure that the statements are simple and easily understood by the borrower.

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

45.6.3 NBFCs shall ensure that the instructions in paragraph 45.6 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.

45.7 General

45.7.1 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).

45.7.2 In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e., objection of the 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.

45.7.3 In the matter of recovery of loans, an 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, NBFCs shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.

45.7.4 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, 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).

45.8 Responsibility of Board of Directors

45.8.1 The Board of Directors of 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 institution's functionaries are heard and disposed of at least at the next higher level.

45.8.2 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.

45.9 Reserve Bank – Integrated Ombudsman Scheme, 2021

NBFCs covered under the Reserve Bank – Integrated Ombudsman Scheme, 2021 (RB-IOS, 2021) shall comply with the directions provided under the said Scheme.

45.10 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 NBFCs with the approval of their Boards. 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, for the information of various stakeholders.

45.11 Regulation of excessive interest charged by NBFCs

45.11.1 The Board of each 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.

45.11.2 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 on the website or otherwise published shall be updated whenever there is a change in the rates of interest.

45.11.3 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.

45.12 Complaints about excessive interest charged by NBFCs

45.12.1 The Reserve 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 Reserve 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.

45.12.2 Boards of 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.

45.13 Repossession of vehicles financed by NBFCs

45.13.1 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.

45.13.2 A copy of such terms and conditions must be made available to the borrower. 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.

45.14 Lending against collateral of Gold Jewellery

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

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

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

(ii) Proper assaying procedure for the jewellery received,

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

(iv) 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,

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

(vi) 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,

(vii) 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,

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

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

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

45.14.2 The loan agreement shall also disclose details regarding auction procedure.

45.14.3 Other Instructions

(i) 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.

(ii) Documentation across all branches must be standardized.

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

45.15 Loan facilities to the physically/visually challenged by NBFCs

NBFCs shall not discriminate in extending products and facilities including loan facilities to physically/visually challenged applicants on grounds of disability. All branches of NBFCs shall render all possible assistance to such persons for availing of the various business facilities. 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, NBFCs shall ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up by them.

Chapter VIII

Miscellaneous Instructions

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

The instructions in the following paragraphs are in addition to those prescribed by Foreign Exchange Department (FED) of the Reserve Bank for overseas investment:

46.1 Prior approval of the Reserve Bank shall be obtained in cases of opening of branch/subsidiary/joint venture/representative office or undertaking investment abroad by NBFCs. No 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 Reserve Bank. The application from the NBFC seeking No Objection would be considered subject to general and specific conditions prescribed in the paragraphs 46.2 and 46.3 respectively.

46.2 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 percent of the NOF. The overseas investment in a single entity, including its stepdown subsidiaries, by way of equity or fund-based commitment shall not be more than 15 percent of the 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 NBFCs post investment in subsidiary abroad shall be not less than the regulatory prescriptions;

(vii) The 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, 1934;

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

(ix) The 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 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 NBFC, shall be satisfactory;

(xii) The 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 NBFC to the Regional Office of Department of Supervision of the Reserve 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 Reserve Bank, the permission granted shall be withdrawn. All approvals for investment abroad shall be subject to this condition.

46.3 Specific conditions

46.3.1 Opening of Branch abroad

As a general policy, NBFCs shall not be allowed to open a branch abroad. However, 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 these directions, as applicable.

46.3.2 Opening of subsidiary abroad

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

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

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

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

(iv) 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;

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

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

(vii) 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;

(viii) The permission granted to any 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;

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

46.3.3 **Joint Ventures abroad**

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

46.3.4 **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.

47. Expansion of activities of NBFCs through automatic route

NBFCs 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.

48. 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 instructions as provided at Annex XIII.

49. [18]Guidelines on Digital Lending

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

50. [19]Guidelines on Default Loss Guarantee (DLG) in Digital Lending

NBFCs shall 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.

51. [20]Loans Sourced by NBFCs over Digital Lending Platforms: Adherence to Fair Practices Code and Outsourcing Guidelines

51.1 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,

[18] Vide circular DOR.CRE.REC.66/21.07.001/2022-23 dated September 02, 2022
[19] Vide circular DOR.CRE.REC.21/21.07.001/2023-24 dated June 08, 2023
[20] Vide circular DOR(NBFC)(PD)CC.No.112/03.10.001/2019-20 dated June 24, 2020

some NBFCs have been registered with the 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.

51.2 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.

51.3 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:

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

(ii) 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.

(iii) 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.

(iv) 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.

(v) effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the NBFCs.

(vi) adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

51.4 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.

52. Credit Default Swaps (CDS) – NBFCs as Users

52.1 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.

52.2 Apart from complying with all the provisions above, NBFCs shall, as users, also ensure that the guidelines enclosed including operational requirements for CDS as provided in Annex XIV, are fulfilled by them.

53. Currency Futures

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.

54. Interest Rate Futures

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. 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 Reserve Bank in whose

jurisdiction their company is registered, within a period of one month from the close of the half year.

55. Transactions in Government securities

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

56. Operative instructions relating to Government Securities Transactions

NBFCs shall follow the guidelines on transactions in Government Securities as given in the circulars 'Transactions in Government Securities' dated March 29, 2004, 'Sale of securities allotted in Primary issues', 'Government Securities Transactions – T+1 Settlement', both dated May 11, 2005 and Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018, dated July 24, 2018, as amended from time to time.

57. Reporting Platform for Corporate Bond Transactions

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 'FIMMDA's Trade Reporting and Confirmation platform for OTC transactions in Corporate Bonds and Securitized Debt Instruments' dated February 24, 2014, as amended from time to time, shall be adhered to in this regard.

58. Raising Money through Private Placement by NBFCs

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

59. Entry into insurance business

59.1 For entry into insurance business, 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 Reserve Bank in whose jurisdiction the registered office of the NBFCs is situated.

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

59.3 The detailed Guidelines are as provided for in Annex XVI.

60. Issue of Co-branded Credit Cards

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. NBFCs fulfilling the minimum eligibility requirements and adhering to certain stipulations are eligible to apply. The detailed guidelines are provided in Annex XVII.

61. Distribution of Mutual Fund products

NBFCs registered with the Reserve 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 XVIII.

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

NBFCs may act as sub-agents under MTSS without any prior approval of the Reserve Bank. Deposit accepting NBFCs shall not undertake such activity.

63. Undertaking of Point of Presence Services under Pension Fund Regulatory and Development Authority for National Pension System

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

64. Provision of Safe Deposit Locker Facility by 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 NBFCs. NBFCs offering safe deposit locker facility or intending to offer it, shall disclose to their customers that the activity is not regulated by the Reserve Bank.

65. [21]Legal Entity Identifier for Borrowers

65.1 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

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

transactions worldwide. Accordingly, it is advised that non-individual borrowers enjoying aggregate exposure of ₹5 crore and above from banks[22] and financial institutions (FIs)[23] 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 information available either with them, or CRILC database or declaration obtained from the borrower.

65.2 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 Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI. The rules, procedure and documentation requirements may be ascertained from LEIIL. After obtaining LEI code, NBFCs shall also ensure that borrowers renew the codes as per GLEIF guidelines.

65.3 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[24] 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.

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

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

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

65.4 NBFCs shall encourage borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

66. Submission of data to Credit Information Companies (CICs)

66.1 All NBFCs (except 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.

66.2 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:

(i) 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

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

67. Data Format for Furnishing of Credit Information to CICs and other Regulatory Measures

67.1 All NBFCs (except those which are purely into investment activities without any customer interface) 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 and subsequent instructions on the subject, 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.

67.2 NBFCs shall comply with the directive issued under section 11(1) of Credit Information Companies (Regulation) Act (CICRA), by the Reserve Bank vide DBR.No.CID.BC.59/20.16.056/2014-15 dated January 15, 2015.

68. Filing of records of mortgages with the Central Registry

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 (Central Registry) and shall also register the records with the Central Registry as and when equitable mortgages are created in their favour. NBFCs shall register all types of mortgages with Central Registry and adhere to the provisions contained in the circular 'Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable and Intangible Assets in CERSAI' dated December 27, 2018, as amended from time to time.

69. [25]Display of information - Secured assets possessed under the SARFAESI Act, 2002

69.1 NBFCs which are secured creditors as per the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, shall display information in respect of the borrowers whose secured assets have been taken into possession by them under the said Act.

69.2 NBFCs shall upload this information on their website in the format as prescribed in Annex XIX. The first such list shall be displayed on the website of the NBFCs within six months from the date of the circular 'Display of information - Secured assets possessed under the SARFAESI Act, 2002' (i.e. September 25, 2023) and the list shall be updated on monthly basis.

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

The NBFC-AA consolidates financial information, as defined in paragraph 3(1) ix of Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank)

[25] Vide circular DoR.FIN.REC.41/20.16.003/2023-24 dated September 25, 2023.

Directions, 2016, dated September 02, 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).

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

71. Finance for Housing Projects

While granting finance to housing/development projects, NBFCs 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.

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

72. NBFCs not to be partners in partnership firms

72.1 No NBFC shall contribute to the capital of a partnership firm or become a partner of such firm.

72.2 In this connection

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

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

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.

73. Ratings of financial products of NBFCs

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 Reserve Bank under whose jurisdiction their registered office is functioning.

74. 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, 1934. 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 ₹10 crore, till commencement of NBFI business.

75. Use of electronic payment system

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.

76. Migration of Post-Dated Cheques (PDCs)/ Equated Monthly Instalment (EMI) Cheques to National Automated Clearing House(NACH)(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 NBFCs to take additional cheques, if any, from customers in addition to NACH (Debit) mandates. Accordingly, NBFCs have been advised not to accept fresh/ additional PDCs or EMI cheques from their customers. Cheques complying with CTS-2010 standard formats alone shall be obtained in locations, where the facility of NACH is not available.

77. Unsolicited Commercial Communications - National Do Not Call Registry

NBFCs shall

(i) Not engage Telemarketers (DSAs/DMAs) who do not have any valid registration certificate from DoT, Government of India, as telemarketers; 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.

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

78.1 Instances of fraud have been brought to the notice of the Reserve Bank 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 bank's customer. The remaining beneficiaries and applicants were neither the customers of the bank nor were they known to the bank branch officials.

78.2 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.

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

79. Disbursal of loan amount in cash

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

80. Rounding off of transactions to the Nearest Rupee

All transactions of 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.

Section III

Regulations applicable for NBFC-ML

Regulatory instructions specified in **Section III** shall be applicable to NBFC-ML. In addition, regulatory instructions applicable to NBFC-BL as specified in Section II shall also be applicable to NBFC-ML, unless stated otherwise.

Chapter IX

Prudential Regulations

81. Capital Requirement

81.1 NBFCs shall maintain a minimum capital ratio consisting of Tier 1 and Tier 2 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.

81.2 Tier 1 capital in respect of NBFC (except NBFC-MFI and NBFC primarily engaged in lending against gold jewellery[26]), at any point of time, shall not be less than 10 percent.

82. Capital raising option for capital adequacy purposes

Taking into consideration, the need for enhanced funds for increasing business and meeting regulatory requirements, NBFCs (except NBFCs-D) are permitted to augment their capital funds by issue of Perpetual Debt Instruments (PDI) in accordance with the guidelines contained in the Annex XX. Such PDI shall be eligible for inclusion as Tier 1 capital to the extent of 15 percent of total Tier 1 capital as on March 31 of the previous accounting year.

83. Internal Capital Adequacy Assessment Process (ICAAP)

NBFCs are required to make a thorough internal assessment of the need for capital, commensurate with the risks in their business. This internal assessment shall be on similar lines as ICAAP prescribed for commercial banks under Pillar 2 (Master Circular – Basel III Capital Regulations, dated May 12, 2023, as amended from time to time). While Pillar 2 capital will not be insisted upon, NBFCs are required to make a realistic assessment of risks. Internal capital assessment shall factor in credit risk, market risk, operational risk and all other residual risks as per methodology to be determined internally. The methodology for internal assessment of capital shall be proportionate to the scale and complexity of operations as per their Board approved policy. The objective of ICAAP is to ensure availability of adequate capital to support all risks in business as also to encourage NBFCs to develop and use better internal risk management techniques for monitoring and managing their risks. This will facilitate an active dialogue between the

[26] i.e. for NBFCs with such loans comprising 50 percent of more of their financial assets, Tier I capital shall be minimum of 12% as prescribed in paragraph 9.2 of these Directions.

supervisors and NBFCs on the assessment of risks and monitoring as well as mitigation of the same.

84. Treatment to On-Balance Sheet Assets for Capital Ratio

In this paragraph, degree 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 assets shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Sr. No.		**Weighted risk assets - On-balance Sheet items**	**Percentage Weight**
(1)		Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(2)		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
(3)		Current assets	
	(a)	Stock on hire (net book value)	100
	(b)	Inter corporate loans/ deposits	100
	(c)	Loans and advances fully secured against deposits held	0
	(d)	Loans to staff	0

Sr. No.		Weighted risk assets - On-balance Sheet items	Percentage Weight
	(e)	Other secured loans and advances considered good [Except at (6) below]	100
	(f)	Bills purchased/ discounted	100
	(g)	Others (To be specified)	100
(4)		Fixed Assets (net of depreciation)	
	(a)	Assets leased out (net book value)	100
	(b)	Premises	100
	c)	Furniture & Fixtures	100
(5)		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
(6)		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 NOF 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. [27](i) 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, as applicable for scheduled commercial banks in terms of paragraph 7.5 of the 'Master Circular on Basel III Capital Regulations' dated May 12, 2023, 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

[27] Vide circular DOR.STR.REC.67/21.06.201/2022-23 dated September 07, 2022.

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 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 in paragraph 138 of the Directions.

85. Treatment to Off-Balance Sheet items for Capital Ratio

85.1 General

NBFC 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 percent for exposure to banks and 100 percent for others.

85.2 Non-market-related off-balance sheet items

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).

Sl. No.	**Instruments**	**CCF**
(1)	Financial and other guarantees	100
(2)	Share/ debenture underwriting obligations	50
(3)	Partly-paid shares/debentures	100
(4)	Bills discounted/rediscounted	100
(5)	Lease contracts entered into but yet to be executed	100

Sl. No.	Instruments	CCF
(6)	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC	100
(7)	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down	100
(8)	Lending of NBFC securities or posting of securities as collateral by the NBFC, including instances where these arise out of repo style transactions	100
(9)	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of	
	up to one year	20
	over one year	50
(10)	Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	0
(11)	Take-out Finance in the books of taking-over institution	
	(a) Unconditional take-out finance	100
	(b) Conditional take-out finance	50
Note: As the counter party exposure will determine the risk weight, it will be 100% in respect of all borrowers or zero % if covered by Government guarantee.		
(12)	Commitment to provide liquidity facility for securitization of standard asset transactions	100
(13)	Second loss credit enhancement for securitization of standard asset transactions provided by the third party	100
(14)	Other contingent liabilities (To be specified)	50

Notes:

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'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 NBFC's explicit approval for drawdown 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 percent and if it is more than one year then the applicable CCF will be 50 percent.

85.3 Market Related Off-Balance Sheet Items

85.3.1 NBFCs 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.

85.3.2 The credit risk on market related off-balance sheet items is the cost to an NBFC 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 volatility of rates underlying the type of instrument.

85.3.3 Market related off-balance sheet items shall include:

(i) Interest rate contracts – including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

(ii) 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;

(iii) Credit Default Swaps; and

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

85.3.4 Exemption from capital requirements is permitted for instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.

85.3.5 The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g., Collateralised 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.

85.3.6 A CCF of 100 percent 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 percent and for other CCPs, the risk weight will be 50 percent.

85.3.7 The total credit exposure to a counter party in respect of derivative transactions shall be calculated according to the current exposure method as explained in paragraph 85.4 below.

85.4 Current Exposure Method (used for measuring capital charge for default risk)

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

85.4.1 Current 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.

Note: In case of bilateral netting arrangement, refer to the definition as specified in paragraph 85.4.4 below.

85.4.2 Potential future 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 (%)	
	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**

Notes:

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

2. 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 percent.

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

4. 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 would have an effective notional amount of USD 2 million.

85.4.3 When effective bilateral netting contract as specified in paragraph 85.4.5 is in place, current exposure, i.e., replacement cost will be the net replacement cost; and the potential future exposure, i.e., add-on will be A_{Net} as calculated below:

(i) Credit exposure on bilaterally netted forward transactions will be calculated as the sum of the net mark-to-market replacement cost, if positive, plus an add-on based on the notional underlying principal.

The add-on for netted transactions (A_{Net}) will equal the weighted average of the gross add-on (A_{Gross}) and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$A_{Net} = 0.4 * A_{Gross} + 0.6 * NGR * A_{Gross}$$

where:

NGR = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements[28]

A_{Gross} = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in the table in paragraph 85.4.2 of all transactions subject to legally enforceable netting agreements with one counterparty.

(ii) For the purposes of calculating potential future exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which the notional principal amount is equivalent to cash flows, the notional principal is defined as the net receipts falling due on each value date in each currency. The reason for this is that offsetting contracts in the same currency maturing on the same date will have lower potential future exposure as well as lower current exposure.

85.4.4 **Definitions and general terminology**

(i) Current Exposure is the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is often also called Replacement Cost (RC).

[28] NBFCs must calculate NGR on a counterparty by counterparty basis for all transactions that are subject to legally enforceable netting agreements.

(ii) Netting Set is a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised for regulatory capital purposes. Each transaction that is not subject to a legally enforceable bilateral netting arrangement that is recognised for regulatory capital purposes should be interpreted as its own netting set for the purpose of these rules.

85.4.5 **Requirement for recognition of Bilateral Netting Contract**

(i) NBFCs may net transactions subject to novation under which any obligation between such NBFC and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.

(ii) NBFCs may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.

(iii) In both cases (a) and (b), NBFCs will need to satisfy that it has:

(a) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the NBFCs would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances;

(b) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find such NBFC's exposure to be such a net amount under:

- The law of the jurisdiction in which the counterparty is chartered and if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located;
- The law that governs the individual transactions; and
- The law that governs any contract or agreement necessary to effect the netting.

(c) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.

(iv) Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

85.5 Credit conversion factors for Credit Default Swaps (CDS)

NBFCs 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:

85.5.1 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 percent of the exposure hedged. Therefore, the NBFC shall continue to maintain capital charge for the corporate bond to the extent of 20 percent of the capital charge. This can be achieved by taking the exposure value at 20 percent 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 to the protection seller i.e., 20 percent for banks and 100 percent for others.

85.5.2 For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs 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 to the protection seller i.e., 20 percent for banks and 100 percent for others.

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

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

86.1.1 The balance in DTL account shall not be eligible for inclusion in Tier 1 or Tier 2 capital for capital adequacy purpose as it is not an eligible item of capital.

86.1.2 DTA shall be treated as an intangible asset and shall be deducted from Tier 1 capital.

86.2 In this connection

86.2.1 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".

86.2.2 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".

86.2.3 Intangible assets and losses in the current period and those brought forward from previous periods shall be deducted from Tier 1 capital.

86.3 DTA computed as under shall be deducted from Tier 1 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 1 capital.

87. Asset Classification

The asset classification norms as given below shall apply to NBFC (except microfinance loans of NBFC-MFIs).

87.1 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.

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.

87.1.1 "**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.

87.1.2 "**Sub-standard asset**" shall mean:

(i) an asset which has been classified as non-performing asset for a period not exceeding 12 months;

(ii) 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 17 of these Directions;

87.1.3 "**Doubtful asset**" shall mean:

(i) a term loan, or

(ii) a lease asset, or

(iii) a hire purchase asset, or

(iv) any other asset,

which remains a sub-standard asset for a period exceeding 12 months.

87.1.4 "**Loss asset**" shall mean:

(i) an asset which has been identified as loss asset by the (NBFC or its internal or external auditor or by the Reserve Bank during the inspection of the NBFC, to the extent it is not written off by the NBFC; and

(ii) 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.

87.1.5 **"Non-Performing Asset"** (NPA) shall mean:

(i) an asset, in respect of which, interest has remained overdue for a period of more than 90 days.

(ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days.

(iii) a demand or call loan, which remained overdue for a period of more than 90 days from the date of demand or call or on which interest amount remained overdue for a period of more than 90 days.

(iv) a bill which remains overdue for a period of more than 90 days.

(v) 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 more than 90 days.

(vi) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 90 days.

(vii) the lease rental and hire purchase instalment, which has become overdue for a period of more than 90 days.

(viii) 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 NBFC shall classify each such account on the basis of its record of recovery.

87.2 [29]The instructions as given below shall apply to the NBFC**:**

87.2.1 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 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.

87.2.2 NBFC shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories:

[29] 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.

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 90 days

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

87.2.4 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. Illustrations for the same are provided in paragraph 137 of the Directions.

87.2.5 Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

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.

87.2.6 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.

88. Standard asset provisioning (Not applicable for NBFC-UL)

NBFC shall make provisions for standard assets at 0.40 percent 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.

89. Guidelines on Maintenance of Liquidity Coverage Ratio (LCR)

In addition to the guidelines as detailed in paragraph 26 above, the following categories of NBFCs shall adhere to the guidelines on LCR including disclosure standards as provided in Annex XXI:

89.1 All non-deposit taking NBFCs with asset size of ₹10,000 crore and above, and all deposit taking NBFCs irrespective of their asset size, shall maintain a liquidity buffer in terms of LCR which will promote resilience of NBFCs to potential liquidity disruptions by ensuring that they have sufficient High Quality Liquid Asset (HQLA) to survive any acute liquidity stress scenario lasting for 30 days. The stock of HQLA to be maintained by the NBFCs shall be minimum of 100 percent of total net cash outflows over the next 30 calendar days. The LCR requirement shall be binding on NBFCs from December 1, 2020 with the minimum HQLAs to be held being 50 percent of the LCR, progressively reaching up to the required level of 100 percent by December 1, 2024, as per the timeline given below:

From	December 1, 2020	December 1, 2021	December 1, 2022	December 1, 2023	December 1, 2024
Minimum LCR	50%	60%	70%	85%	100%

89.2 All non-deposit taking NBFCs with asset size of ₹5,000 crore and above but less than ₹10,000 crore shall also maintain the required level of LCR starting December 1, 2020, as per the timeline given below:

From	December 1, 2020	December 1, 2021	December 1, 2022	December 1, 2023	December 1, 2024
Minimum LCR	30%	50%	60%	85%	100%

89.3 Core Investment Companies, Type I NBFCs, NOFHCs and SPDs are exempt from the applicability of LCR norms.

90. Disclosure in Financial Statement – Notes to Accounts

90.1 NBFCs shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:

(i) The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the NBFC;

(ii) Conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

90.2 NBFCs shall also disclose the following in their Annual Financial Statements:

(i) registration/license/authorisation, by whatever name called, obtained from other financial sector regulators;

(ii) ratings assigned by credit rating agencies and migration of ratings during the year;

(iii) penalties, if any, levied by any regulator;

(iv) information namely, area, country of operation and joint venture partners with regard to joint ventures and overseas subsidiaries; and

(v) Asset-Liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them and other disclosures, as given in Annex XXII.

90.3 In addition to the above, NBFCs shall comply with the disclosure requirements prescribed in **Section II** of Annex VII and also disclose the following particulars in its Balance Sheet:

(i) Capital to Risk Assets Ratio (CRAR);

(ii) Exposure to real estate sector, both direct and indirect; and

(iii) Maturity pattern of assets and liabilities.

Chapter X

Regulatory Restrictions and Limits

91. Credit/investment concentration Norms (except NBFC-UL)

91.1 NBFC(except NBFC-IFC) shall not have exposure (credit/investment taken together) exceeding

(a) twenty-five percent of its Tier 1 capital to a single party; and

(b) forty percent of its Tier 1 capital to a single group of parties,

Provided that an NBFC may exceed the exposure norm specified above, by 5 percent for any single party and by 10 percent for a single group of parties, if the additional exposure is on account of infrastructure loan and/or investment.

91.2 NBFC-IFC shall not have exposure (credit/investment taken together) exceeding

(a) thirty percent of its Tier 1 capital to a single party; and

(b) fifty percent of its Tier 1 capital to a single group of parties.

91.3 The ceiling on the investment in shares of another company shall not be applicable to an NBFC in respect of investment in the equity capital of an insurance company up to the extent specifically permitted, in writing, by the Reserve Bank.

91.4 Exposure norms shall not apply to any NBFC not accessing public funds in India, either directly or indirectly and not issuing guarantees.

91.5 Exposure norms shall not apply to

(i) investments of NBFC in shares of

(a) its subsidiaries;

(b) companies in the same group,

to the extent they have been reduced from Owned Funds for the calculation of NOF and

(ii) the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with -

(a) subsidiaries of the NBFC; and

(b) companies in the same group,

to the extent they have been reduced from Owned Funds for the calculation of NOF.

91.6 NBFC shall formulate a policy in respect of exposures to a single party/a single group of parties.

91.7 Government NBFCs set up to serve specific sectors may approach the Reserve Bank for exemptions, if any.

Notes:

1. For determining the limits, off-balance sheet exposures shall be converted into credit risk by applying the conversion factors, as explained in paragraph 85 of these Directions.

2. These ceilings shall be applicable to the exposure by an NBFC to companies/firms/entities in its own group as well as to the borrowers/investee entity's group.

3. (i) In case of factoring on "with-recourse" basis, the exposure shall be reckoned on the assignor.

(ii) 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.

92. Sensitive Sector Exposure (SSE)

Exposure to capital market (direct and indirect) and commercial real estate[30] shall be reckoned as sensitive exposure for NBFCs. NBFCs shall fix Board-approved internal limits for SSE separately for capital market and commercial real estate exposures. Dynamic vulnerability assessments of various sectors and their likely impact on business, as evaluated periodically, should help NBFCs determine such internal exposure limits. While the Board is free to determine various sub-limits within the overall SSE internal limits, the following are specifically prescribed:

(i) A sub-limit within the commercial real estate exposure ceiling shall be fixed internally for financing land acquisition.

(ii) Ceiling on IPO Funding as mentioned at paragraph 34 of these Directions.

93. Regulatory restrictions on loans

For the purpose of this paragraph, the term "control" shall have the meaning assigned to it under clause (27) of section 2 of the Companies Act, 2013.

[30] Sensitive Sector Exposure as enumerated in paragraph 3.5 of **Annex XXII** of these Directions.

93.1 Loans and advances to Directors

Unless sanctioned by the Board of Directors/Committee of Directors, NBFCs shall not grant loans and advances aggregating Rupees five crores and above to-

(i) their directors (including the Chairman/Managing Director) or relatives of directors.

(ii) any firm in which any of their directors or their relatives is interested as a partner, manager, employee or guarantor.

(iii) any company in which any of their directors, or their relatives is interested as a major shareholder, director, manager, employee or guarantor.

Provided that a director or her relatives shall be deemed to be interested in a company, being the subsidiary or holding company, if she is a major shareholder or is in control of the respective holding or subsidiary company.

Provided that the director who is directly or indirectly concerned or interested in any proposal should disclose the nature of her interest to the Board when any such proposal is discussed. She should recuse herself from the meeting unless her presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

The proposals for credit facilities of an amount less than Rupees five crore to these borrowers may be sanctioned by the appropriate authority in the NBFC under powers vested in such authority, but the matter should be reported to the Board.

93.2 Loans and advances to Senior Officers of the NBFC

NBFCs shall abide by the following when granting loans and advances to their senior officers

(i) Loans and advances sanctioned to senior officers of the NBFC shall be reported to the Board.

(ii) No senior officer or any Committee comprising, inter alia, a senior officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to a relative of that senior officer. Such a facility shall be sanctioned by the next higher sanctioning authority under the delegation of powers.

93.3 Loans and advances to Real Estate Sector

While appraising loan proposals involving real estate, NBFCs shall ensure that the borrowers have obtained prior permission from Government/ local Government/other

statutory authorities for the project, wherever required. To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the Government/ ther statutory authorities.

93.4 In respect of grant of loans mentioned at paragraph 93.1 and 93.2 above –

(i) NBFCs shall obtain a declaration from the borrower giving details of the relationship of the borrower to their directors/senior officers for loans and advances aggregating Rupees five crore and above. NBFCs shall recall the loan if it comes to their knowledge that the borrower has given a false declaration.

(ii) These guidelines shall be duly brought to the notice of all directors and placed before the NBFC's Board of Directors.

(iii) NBFCs shall disclose in their Annual Financial Statement, aggregate amount of such sanctioned loans and advances as per template provided in the Annex XI.

93.5 The above norms as mentioned at paragraphs 93.1, 93.2 and 93.4 relating to grant of loans and advances will equally apply to awarding of contracts.

Explanation: The term 'loans and advances' will not include loans or advances against -

(i) Government securities

(ii) Life insurance policies

(iii) Fixed deposits

(iv) Stocks and shares

(v) Housing loans, car advances, etc. granted to an employee of the NBFC under any scheme applicable generally to employees.

Provided that NBFC's interest/ lien is appropriately marked with legal enforceability.

Chapter XI

Governance Guidelines

94. Constitution of Committees of the Board

94.1 Audit Committee

94.1.1 NBFCs shall constitute an Audit Committee, consisting of not less than three members of its Board of Directors.

Explanation I: If an NBFC is required to constitute Audit Committee under section 177 of the Companies Act, 2013, the Audit Committee so constituted by it shall be treated as the Audit Committee for the purpose of this paragraph.

Explanation II: The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in section 177 of the Companies Act, 2013.

94.1.2 The Audit Committee must ensure that an Information System Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the NBFCs.

94.2 Nomination and Remuneration Committee

NBFCs (except Government NBFCs) shall form a Nomination and Remuneration Committee (NRC) which shall have the constitution, powers, functions and duties as laid down in section 178 of the Companies Act, 2013.

Explanation I: Government NBFCs shall form a Nomination Committee to ensure 'fit and proper' status of proposed/ existing directors. Nomination Committee so constituted shall have the same powers, functions and duties as laid down in section 178 of the Companies Act, 2013.

Explanation II - If an NBFC is required to constitute NRC under section 178 of the Companies Act, 2013, the NRC so constituted by it shall be treated as the NRC/ Nomination Committee for the purpose of this paragraph.

95. Appointment of Chief Risk Officer

95.1 With the increasing role of NBFCs in direct credit intermediation, there is a need for NBFCs to augment risk management practices. While Boards of NBFCs should strive to follow best practices in risk management, NBFCs with asset size of more than ₹5,000

crore in categories - NBFC-ICC, NBFC-IFC, NBFC-MFI, NBFC-Factors and IDF-NBFC shall appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities. The CRO is required to function independently so as to ensure highest standards of risk management.

95.2 The NBFCs shall strictly adhere to the following instructions in this regard:

(i) The CRO shall be a senior official in the hierarchy of an NBFC and shall possess adequate professional qualification/experience in the area of risk management.

(ii) The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred/removed from his post before completion of the tenure only with the approval of the Board and such premature transfer/removal shall be reported to the Department of Supervision of the Regional Office of the Reserve Bank under whose jurisdiction the NBFC is registered. In case the NBFC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.

(iii) The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the MD and CEO/Risk Management Committee (RMC) of the Board. In case the CRO reports to the MD and CEO, the RMC/Board shall meet the CRO without the presence of the MD and CEO, at least on a quarterly basis. The CRO shall not have any reporting relationship with the business verticals of the NBFC and shall not be given any business targets. Further, there shall not be any 'dual hatting' i.e., the CRO shall not be given any other responsibility.

(iv) The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO's role in deciding credit proposals shall be limited to being an advisor.

(v) In NBFCs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

96. 'Fit and Proper Criteria' for the Directors

NBFCs shall

(i) ensure that a policy is put in place with the approval of the Board of Directors for ascertaining the 'fit and proper' criteria of the directors at the time of appointment, and on a continuing basis. The policy on the 'fit and proper' criteria shall be on the lines of the guidelines contained in Annex XXIII;

(ii) obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in Appendix XXIII-A;

(iii) obtain a Deed of Covenant signed by the directors, which shall be in the format as given in Appendix XXIII-B;

(iv) furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the NBFC that 'fit and proper criteria' in selection of the directors has been followed. The statement must reach the Regional Office of the Department of Supervision of the Reserve Bank where the company is registered, within 15 days of the close of the respective quarter. The statement submitted by NBFC for the quarter ending March 31, shall be certified by the auditors.

Provided that the Reserve Bank, if it deems fit and in public interest, reserves the right to examine the 'fit and proper' criteria of directors of any NBFC irrespective of the asset size of such NBFCs.

97. Key Managerial Personnel

Except for directorship in a subsidiary, Key Managerial Personnel[31] shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL. A timeline of two years is provided with effect from October 01, 2022 to ensure compliance with these norms. It is clarified that they can assume directorship in NBFC-BL.

98. Independent Director

Within the permissible limits in terms of Companies Act, 2013, an independent director shall not be on the Board of more than three NBFCs (NBFCs-ML or NBFCs-UL) at the same time. Further, the Board of the NBFC shall ensure that there is no conflict arising

[31] As defined in Section 2 (51) of Companies Act, 2013, as amended from time to time.

out of their independent directors being on the Board of another NBFC at the same time. A timeline of two years is provided with effect from October 01, 2022 to ensure compliance with these norms. There shall be no restriction to directorship on the Boards of NBFCs-BL, subject to provisions of Companies Act, 2013.

99. Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs

99.1 In order to address issues arising out of excessive risk taking caused by misaligned compensation packages, NBFCs are required to put in place a Board approved compensation policy. The policy shall at the minimum include

(i) constitution of a Remuneration Committee,

(ii) principles for fixed/variable pay structures, and

(iii) malus/clawback provisions.

The Board of NBFCs should delineate the role of various committees, including Nomination and Remuneration Committee (NRC). Further, NBFCs shall comply with the guidelines furnished in Annex XXIV.

99.2 The guidelines are intended only for providing broad guidance to NBFCs and their NRCs in formulating their compensation policy. While formulating the compensation policy, it has to be ensured that all statutory mandates and the rules and directions issued under them are fully complied with.

99.3 These guidelines shall be for fixing the compensation policy of Key Managerial Personnel[32] and members of senior management[33] of NBFCs under the SBR framework, except Government owned NBFCs.

100. Framing of Internal Guidelines on Corporate Governance

NBFCs shall frame their internal guidelines on corporate governance with the approval of the Board of Directors, enhancing the scope of the guidelines without sacrificing the spirit underlying the guidelines in **Chapter XI** and it shall be published on the company's website, if any, for the information of various stakeholders.

[32] Key Managerial Personnel: As defined in Section 2 (51) of Companies Act, 2013, as amended from time to time.
[33] 'Senior Management' are the same as defined in 'Explanation' to Section 178 of the Companies Act, 2013.

Chapter XII

Miscellaneous Instructions

101. Participation in Currency Options

Non-deposit taking NBFCs are allowed to participate in the designated currency options exchanges recognized by SEBI, as clients, subject to the guidelines of Foreign Exchange Department of the Reserve Bank, only for the purpose of hedging their underlying forex exposures. Disclosures shall be made in the balance sheet regarding transactions undertaken, in accordance with the guidelines issued by SEBI.

102. Introduction of Interest Rate Futures

Non-deposit taking NBFCs may participate in the interest rate futures market permitted on recognized stock exchanges as trading members, 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.

103. Ready Forward Contracts in Corporate Debt Securities

103.1 Non-deposit taking NBFCs are eligible to participate in repo transactions in corporate debt securities. They shall comply with 'Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018' dated July 24, 2018, as amended from time to time and also adhere to the following instructions.

(i) Capital Adequacy

Risk weights for credit risk for assets that are the collateral for such transactions as well as risk weights for the counterparty credit risk shall be as applicable to the issuer/ counterparty under paragraphs 84 and 85 of these Directions.

(ii) Classification of balances in the accounts

Classification of balances in the various accounts viz. repo account, reverse repo account etc. shall be done in the relevant schedules similar to that of banks.

103.2 In all other matters related to such repo transactions, non-deposit taking NBFCs, shall follow the directions and accounting guidelines issued by Financial Markets Regulation Department of the Reserve Bank.

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

NBFCs which comply with the prescribed CRAR and made net profit in the preceding financial year be permitted to undertake PoP services under PFRDA for NPS after registration with PFRDA. Eligible NBFCs extending such services shall ensure that the NPS subscription collected by them from the public is deposited on the day of collection itself (T+0 basis; where T is the date of receipt of clear funds, either by cash or any other mode) with the Trustee Bank. The deposits shall be made in the Trustee Bank account opened for this purpose under the regulations framed by PFRDA for NPS. NBFCs conducting PoP services shall strictly adhere to the guidelines framed by PFRDA. Any violation of the instructions above would invite supervisory action, including but not limited to cancellation of permission to undertake PoP services.

105. Licensing as Authorised Dealer- Category II

105.1 In order to increase the accessibility and efficiency of forex services extended to the members of the public for their day-to-day non-trade current account transactions, non-deposit taking NBFC-ICC shall be eligible for Authorized Dealer- Category II (AD-Cat II) licence, subject to meeting the following conditions:

(i) NBFCs offering such services shall have a 'minimum investment grade rating'.

(ii) NBFCs offering such services shall put in place a board approved policy on

(a) managing the risks, including currency risk, if any, arising out of such activities and

(b) handling customer grievances arising out of such activities.

A monitoring mechanism, at least at monthly intervals, shall be put in place for such services.

105.2 The eligible NBFCs desirous of undertaking AD-Cat II activities shall approach the Reserve Bank, FED, Central Office, Mumbai for the AD-Cat II licence.

106. Appointment of Internal Ombudsman

NBFCs fulfilling the criteria laid down under the circular on 'Appointment of Internal Ombudsman by Non-Banking Financial Companies' dated November 15, 2021 shall appoint the Internal Ombudsman and adhere to the corresponding guidelines.

Section IV

Regulations applicable for NBFC-UL

Regulatory instructions specified in **Section IV** shall be applicable to NBFC-UL. In addition, regulatory instructions applicable to NBFC-BL as specified in Section II and applicable to NBFC-ML as specified in Section III shall also be applicable to NBFC-UL, unless stated otherwise.

Chapter XIII

Prudential Regulations

107. Common Equity Tier 1

107.1 NBFCs shall maintain, on an on-going basis, Common Equity Tier 1 (CET1) capital of at least 9 percent of Risk Weighted assets, where,

$$\text{Common Equity Tier 1 (CET 1) ratio } = \frac{\text{Common Equity Tier 1 capital}}{\text{Total Risk Weighted Assets}}$$

107.2 Elements of Common Equity Tier 1 capital will comprise the following:

(i) Paid-up equity share capital issued by the NBFC

(ii) Share premium resulting from the issue of equity shares

(iii) Capital reserves representing surplus arising out of sale proceeds of assets

(iv) Statutory reserves

(v) Revaluation reserves arising out of change in the carrying amount of an NBFC's property consequent upon its revaluation in accordance with the applicable accounting standards may, at the discretion of the NBFC, be reckoned as CET 1 capital at a discount of 55 percent, instead of as Tier 2 capital under extant regulations, subject to meeting the following conditions:

(a) the property is held for own use, by the NBFC;

(b) the NBFC is able to sell the property readily at its own will and there is no legal impediment in selling the property;

(c) the revaluation reserves are presented/disclosed separately in the financial statements of the NBFC;

(d) revaluations are realistic, in accordance with applicable accounting standards;

(e) valuations are obtained, from two independent valuers, at least once in every three years;

(f) where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computations; and

(g) the external auditors of the NBFC have not expressed a qualified opinion on the revaluation of the property.

(vi) Other disclosed free reserves, if any.

Note: For Mortgage Guarantee Companies, free reserves include contingency reserves maintained as per paragraph 14(a) of the Master Directions - Mortgage Guarantee Companies (Reserve Bank) Directions, 2016 dated November 10, 2016.

(vii) Balance in Statement of Profit & Loss Account after allocations and appropriations i.e., retained earnings at the end of the previous financial year. Accumulated losses shall be reduced from CET 1.

(viii) Profits in current financial year may be included on a quarterly basis if it has been audited or subject to limited review by the statutory auditors of the NBFC. Further, such profits shall be reduced by average dividend paid in the last three years and the amount which can be reckoned would be arrived at as under:

$EP_t=NP_t -0.25 *D*t$

Where:

EP_t=Eligible profit up to quarter 't' of the current financial year, t varies from 1 to 4

NP_t=Net profit upto quarter 't'

D=average dividend paid during the last three years

Losses in the current year shall be fully deducted from CET 1.

(ix) The following regulatory adjustments/deductions shall be applied in the calculation of CET 1 capital [i.e. to be deducted from the sum of items (i) to (viii)]:

(a) Goodwill and other intangible assets:

(i) Goodwill and all other intangible assets should be deducted from CET 1 capital.

(ii) The full amount of the intangible assets is to be deducted net of any associated deferred tax liabilities which would be extinguished if the intangible assets become impaired or derecognized under the relevant accounting standards. For this purpose, the definition of intangible assets would be in accordance with the relevant accounting standards. Losses in the current period and those brought forward from previous periods should also be deducted from CET 1 capital, if not already deducted.

(b) Deferred Tax Assets (DTAs)

The following DTAs shall be deducted in full, from CET 1 capital –

(i) DTAs associated with accumulated losses

(ii) DTAs (excluding DTAs associated with accumulated losses) net of Deferred Tax Liabilities (DTL)

Note: 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 CET1 capital[34].

(c) Investment in shares of other NBFCs 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[35] exceeding, in aggregate, ten percent of the owned fund of the NBFC.

Notes:

(i) The lower of acquisition cost or fair value of investments/advances shall be used to arrive at the amount of deduction mentioned above.

(ii) For the purpose of the above deduction, margin money placed with a subsidiary or company in the same group shall be considered as deposits.

(d) Impairment Reserve[36] shall be not be recognised in CET 1 capital.

(e) Deductions/exclusions, required on unrealised gains and/or losses from regulatory capital in terms of clauses (i) to (iv) of paragraph 3.1 of Annex II shall be reduced from CET1 capital.

(f) Securitisation Transactions: NBFCs shall be guided by 'Master Direction - Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021' dated September 24, 2021, as amended from time to time in this regard.

(g) Defined Benefit Pension Fund Assets and Liabilities: Defined benefit pension fund liabilities, as included on the balance sheet, must be fully recognised in the calculation of CET 1 capital (i.e., CET 1 capital cannot be increased through derecognising these liabilities). For each defined benefit pension fund that is an asset on the balance sheet, the asset should be deducted in the calculation of CET 1.

(h) Investments in Own Shares (Treasury Stock): Investment in an NBFC's own shares is tantamount to repayment of capital and therefore, such investments, whether held

[34] DTAs may be netted with associated DTLs only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority. The DTLs permitted to be netted against DTAs must exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets.

[35] "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, Joint venture, Associate, Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party, Common brand name, and investment in equity shares of 20 percent and above. The terms parent, subsidiary, joint venture, associate and related party shall be as defined/ described in applicable accounting standards.

[36] Please refer to paragraph 2(b) of **Annex** to circular no. DOR(NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020 on Implementation of Indian Accounting Standards, for guidelines on Impairment Reserve.

directly[37] or indirectly, shall be deducted from CET 1 capital. This deduction would remove the double counting of equity capital which arises from direct holdings, indirect holdings via index funds and potential future holdings as a result of contractual obligations to purchase own shares.

107.3 The total Risk Weighted Assets (RWAs) to be used in the computation of CET 1 ratio shall be the same as the total RWAs computed under these Directions.

108. Differential standard asset provisioning

108.1 NBFCs shall maintain provisions in respect of 'standard' assets at the following rates for the funded amount outstanding:

Category of Assets	**Rate of Provision**
Individual housing loans and loans to Small and Micro Enterprises (SMEs)	0.25%
Housing loans extended at teaser rates	2.00% which will decrease to 0.40% after 1 year from the date on which the rates are reset at higher rates (if the accounts remain 'standard')
Advances to Commercial Real Estate – Residential Housing (CRE - RH) Sector	0.75%
Advances to Commercial Real Estate (CRE) Sector (other than CRE-RH)	1.00%
Restructured advances	As stipulated in the applicable prudential norms for restructuring of advances
All other loans and advances not included above, including loans to Medium Enterprises	0.40%

108.2 Current credit exposures arising on account of the permitted derivative transactions shall also attract provisioning requirement as applicable to the loan assets in the 'standard' category, of the concerned counterparties. All conditions applicable for

[37] It may be noted that section 67 of the Companies Act, 2013 restricts the purchase by a company or giving loans by it for purchase of its shares.

treatment of the provisions for standard assets would also apply to the aforesaid provisions for permitted derivative transactions.

108.3 Since NBFCs with net worth of ₹250 crore or above are required to comply with Indian Accounting Standards (Ind AS) for the preparation of their financial statements, they shall continue to hold impairment allowances as required under Ind AS, subject to the prudential floor as prescribed under paragraph 2 of the Annex II of these Directions. The above-mentioned provisions shall, however, be included in the computation of the prudential floor, but shall not be reckoned for calculating net NPAs.

108.4 For the purpose of these instructions, the following definitions/ clarifications shall apply:

108.4.1 The definition of the terms Micro Enterprises, Small Enterprises, and Medium Enterprises shall be as per the circular on 'Credit flow to Micro, Small and Medium Enterprises Sector' dated July 2, 2020 as updated from time to time.

108.4.2 Commercial Real Estate (CRE) would consist of loans to builders/ developers/ others for creation/ acquisition of commercial real estate (such as office building, retail space, multi-purpose commercial premises, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction etc.) where the prospects for repayment, or recovery in case of default, would depend primarily on the cash flows generated by the asset by way of lease/rental payments, sale etc. Further, loans for third dwelling unit onwards to an individual will be treated as CRE exposure.

108.4.3 Commercial Real Estate – Residential Housing (CRE–RH) is a sub-category of CRE that consist of loans to builders/ developers for residential housing projects (except for captive consumption). Such projects should ordinarily not include non-residential commercial real estate. However integrated housing project comprising of some commercial spaces (e.g., shopping complex, school etc.) can also be specified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10 percent of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceed the ceiling of 10 percent, the entire loan should be classified as CRE and not CRE-RH.

108.4.4 Housing loans extended at teaser rates shall mean housing loans having comparatively lower rates of interest in the first few years after which the rates of interest are reset at higher rates.

108.4.5 Current credit exposure is defined as the sum of the gross positive mark-to-market value of all derivative contracts with respect to a single counterparty, without adjusting against any negative marked-to-market values of contracts with the same counterparty.

109. Disclosures in Financial Statements - Notes to Accounts of NBFCs

NBFCs shall comply with the disclosure requirements prescribed in **Section III** of Annex VII.

Chapter XIV

Regulatory Restrictions and Limits

110. Large Exposure Framework (LEF)

110.1 Prudential guidelines on exposure norms aim at addressing credit risk concentration in NBFCs. These instructions set out to identify large exposures, refine the criteria for grouping of connected counterparties and put in place reporting norms for large exposures. NBFCs shall follow the Large Exposure Framework as detailed below.

110.2 Definitions

110.2.1 "Tier 1 capital" for the purpose of the guidelines shall have the same meaning as defined in paragraph 5.1.34 of these Directions. Further, profits accrued during the year will be reckoned as Tier 1 capital for the purpose of LEF after making necessary adjustments as per the guidelines applicable to NBFC-UL. The NBFC-UL shall obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Department of Supervision of the Reserve Bank before reckoning the additions to capital funds.

110.2.2 "Eligible capital base" means Tier 1 capital as defined at paragraph 110.2.1 above.

110.2.3 "Control[38]" means the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders' agreements or voting agreements or in any other manner.

110.3 Scope of application

110.3.1 The guidelines shall be applicable to NBFCs, both at the solo level and at the consolidated (group) level.

110.3.2 Exposure shall comprise both on and off-balance sheet exposures by the NBFCs.

110.4 Scope of counterparties and exemptions

110.4.1 NBFC's exposure to all its counterparties and groups of connected counterparties, excluding the exposures listed below, will be considered for exposure limits. The exposures that are exempted from the LEF are listed below:

[38] Clause (27) of section 2 of the Companies Act, 2013

(i) Exposure to the Government of India and State Governments which are eligible for zero percent risk weight under capital regulations applicable to NBFC;

(ii) Exposure where the principal and interest are fully guaranteed by the Government of India;

(iii) NBFC's exposure to group entities that is deducted from its Owned Funds to arrive at the NOF.

(iv) Investment in the equity capital of the insurance company to the extent specifically permitted in writing by the Reserve Bank.

110.4.2 Exposures shall be permitted to be offset with credit risk transfer instruments as per principle indicated at paragraph 110.6.1 and the indicative list of such instruments is provided below:

(i) Cash margin/ caution money/ security deposit against which right to set off is available, held as collateral against the advances;

(ii) Central Government guaranteed claims which attract zero percent risk weight for capital computation;

(iii) State Government guaranteed claims which attract 20 percent risk weight for capital computation;

(iv) For corporate bonds held in current category and hedged by Credit Default Swap (CDS), where there is no mismatch between the CDS and the hedged bond, the credit protection has been permitted to be recognised to a maximum of 80 percent of the exposure hedged. The remaining 20 percent of the exposure shall be recognised on the original counterparty. For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the NBFC can recognise full credit protection for the underlying asset. The exposure of the original counterparty shall stand fully substituted by the exposure to the protection seller.

Except for clauses (i) and (ii) of paragraph 110.4.2 above, in all other cases where exposure to the original counterparty is reduced on account of an eligible credit risk transfer instrument provided by another counterparty for that exposure, it needs to be recognized as an exposure to that extent on the credit risk transfer instrument provider.

110.4.3 Where two (or more) entities falling outside the scope of the sovereign exemption are controlled by or are economically dependent on an entity that falls within the scope of

the sovereign exemption (paragraph 110.4.1), and are otherwise not connected, those entities will not be deemed to constitute a group of connected counterparties.

110.4.4 NBFC's exposure to an exempted entity which is hedged by a credit derivative shall be treated as an exposure to the counterparty providing the credit protection notwithstanding the fact that the original exposure is exempted.

110.5 The Large Exposure Limits

110.5.1 **Single Counterparty**

(i) The sum of all the exposure values of an NBFC to a single counterparty must not be higher than 20 percent of the NBFC's available eligible capital base at all times.

(ii) Board of the NBFC may allow additional 5 percent exposure beyond 20 percent but at no time higher than 25 percent of the NBFC's eligible capital base, subject to the following conditions:

(a) NBFC has a policy approved by its board of directors setting out conditions under which exposure beyond 20 percent may be considered; and

(b) NBFC shall record in writing the exceptional reasons for which exposure beyond 20 percent is being allowed in a specific case.

Provided that an NBFC-IFC may further exceed the exposure limit by 5 percent of Tier 1 capital for exposure to a single counterparty.

Provided further that an NBFC may exceed the exposure limit by 5 percent of its Tier 1 capital for exposure to a single counterparty, if the additional exposure is on account of infrastructure 'loan and/ or investment'. However, single counterparty limit shall not exceed 25 percent in any case for NBFC (other than IFC) and 30 percent for NBFC-IFC.

110.5.2 **Groups of Connected Counterparties**:

(i) The sum of all exposure values of an NBFC to a group of connected counterparties shall not be higher than 25 percent of the NBFC's available eligible capital base at all times.

Provided that an IFC may exceed the exposure limit by 10 percent of its Tier 1 capital for exposure to a group of connected counterparties.

Provided further that an NBFC may exceed the exposure limit by 10 percent of its Tier 1 capital for exposure to a group of connected counterparties, if the additional exposure is on account of infrastructure 'loan and/or investment'.

(ii) Each NBFC shall frame a policy approved by its board to determine the existence of a group of connected counterparties. The policy framed, and assessments made under such a policy shall be subject to supervisory scrutiny.

(iii) In exceptional cases, if a NBFC demonstrates to the Reserve Bank that despite control being established, such control does not necessarily result in the entities concerned constituting a group of connected counterparties (e.g., existence of control between counterparties due to specific circumstances and corporate governance safeguards), then it is not required to classify the entities as a group of connected counterparties.

(iv) In exceptional cases, if a NBFC can demonstrate to the Reserve Bank that a counterparty which is economically closely related to another counterparty may overcome financial difficulties, or even the second counterparty's default, by finding alternative business partners or funding sources within an appropriate time period, then it is not required to classify the entities as a group of connected counterparties.

110.5.3 A summary of the LEF limits for NBFC is given below:

		(as % of eligible capital base)
	NBFC (Other than IFC)	NBFC (IFC)
Single Counterparty	20% additional 5% with Board approval additional 5% if exposure towards Infrastructure loan/ investment (Single counterparty limit shall not exceed 25% in any case)	25% additional 5% with Board approval
Group of connected Counterparties	25% additional 10% if exposure towards Infrastructure loan/ investment	35%

110.5.4 **Relation between interconnectedness through control and interconnectedness through economic dependency**

There may be situations where the control relationship and economic interdependence are interlinked. Therefore, one group of connected counterparties could include both types of factors in such a way that all relevant counterparties constitute a single risk for the NBFC. Risk of contagion is present irrespective of type of connectedness (i.e. control or economic interdependence) between counterparties. NBFC should assess

counterparties with a view to identifying the chain of contagion leading to possible default of all entities.

110.6 Values of exposures

110.6.1 An exposure to a counterparty shall constitute both on and off-balance sheet exposures which shall be calculated according to the method prescribed for capital computation in these directions. The exposures shall be permitted to be offset with credit risk transfer instruments permitted in these directions.

110.6.2 Factoring transactions: In the case of factoring on “with-recourse” basis, the exposure shall be reckoned on the assignor. 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.

110.6.3 Exposures to Central Counterparties:

(i) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions outstanding against them shall be assigned zero exposure value. However, these exposures will be subject to the regulatory reporting requirements as specified in paragraph 110.7.

(ii) Amount of the collaterals with CCPs shall be reckoned for arriving at the exposure limit.

(iii) Other exposures: Other types of exposures such as equity stake, funding facilities, credit facilities, guarantees etc., shall be measured according to the rules set out in this framework, as for any other type of counterparty. These exposures shall be added together and be subjected to the LE limit.

110.6.4 Breach

(i) Any breach of Large Exposure limits shall be under exceptional conditions beyond the control of NBFC, and it shall be reported to the Reserve Bank (Department of Supervision, Central Office) immediately and rapidly rectified.

(ii) NBFC cannot undertake any further exposure (at the entity or group level, as the case may be) until it is brought down within the limit.

(iii) Failure to comply with the exposure limit may lead to imposition of penalties on the NBFCs by the supervisor.

110.7 Regulatory reporting

NBFC shall report its Large Exposures to the Reserve Bank (Department of Supervision, Central Office) as per the reporting template given in Annex XXV. The LEF reporting shall cover the following:

(i) all exposures, meeting the definition of large exposure;

(ii) all other exposures, measured as specified in paragraph 110.6 of this framework without offsetting exposure value with credit risk transfer instruments, where values stand equal to or above 10 percent of the NBFC's eligible capital base;

(iii) all the exempted exposures with values equal to or above 10 percent of the NBFC's eligible capital base;

(iv) 10 largest exposures included in the scope of application, irrespective of the values of these exposures relative to the NBFC's eligible capital base.

111. Internal Exposure Limits

In addition to the internal limits on SSE as specified in paragraph 92 of these Directions, the Board of NBFC shall also determine internal exposure limits on other important sectors to which credit is extended. Further, NBFC shall put in place an internal Board approved limit for exposure to the NBFC sector.

Chapter XV

Governance Guidelines

112. Qualification of Board Members

Board members shall be competent to manage the affairs of the NBFC. The composition of the Board should ensure mix of educational qualification and experience within the Board. Specific expertise of Board members will be a prerequisite depending on the type of business pursued by the NBFC.

113. Listing & Disclosures

NBFC shall be mandatorily listed within three years of identification as NBFC-UL. Disclosure requirements shall be put in place on the same lines as applicable to a listed company even before the actual listing, as per Board approved policy of the NBFC.

Chapter XVI

Transition Path

114. Transition Plan

114.1 Transition Plan

Once a NBFC is identified for inclusion as NBFC-UL, the NBFC shall be advised about its classification by the Department of Regulation, the Reserve Bank and it will be placed under regulation applicable to the Upper Layer. For this purpose, the following timelines shall be adhered to:

114.1.1 Within three months of being advised by the Reserve Bank regarding its inclusion in the NBFC-UL, the NBFC shall put in place a Board approved policy for adoption of the enhanced regulatory framework and chart out an implementation plan for adhering to the new set of regulations.

114.1.2 The Board shall ensure that the stipulations prescribed for the NBFC-UL are adhered to within a maximum time-period of 24 months from the date of advice regarding classification as a NBFC-UL from the Reserve Bank. During the period of transition, calibrated increment to business may be allowed through supervisory engagement. The period of three months provided for charting out the plan for implementation shall be subsumed within the 24-months' time-period referred to above.

114.1.3 The roadmap as approved by the Board towards implementation of the enhanced regulatory requirement shall be submitted to the Reserve Bank and shall be subject to supervisory review.

114.2 Transition of NBFCs to the Upper Layer

114.2.1 Once an NBFC is categorised as NBFC-UL, it shall be subject to enhanced regulatory requirement, at least for a period of five years from its classification in the layer, even in case it does not meet the parametric criteria in the subsequent year/s. In other words, it will be eligible to move out of the enhanced regulatory framework only if it does not meet the criteria for classification for five consecutive years.

114.2.2 NBFC-UL may however move out of the enhanced regulatory framework before the period of five years if the movement is on account of voluntary strategic move to readjust operations as per a Board approved policy. This stipulation shall not apply if the

scaling down of operations is on account of adverse situations specific to the NBFC and its deteriorating financial conditions.

114.2.3 NBFCs which are close to meeting the parameters and benchmarks that would render them eligible for classification as NBFC-UL shall be intimated about the same to enable them to readjust their operations, in case they intend to continue to function as NBFC-ML on a long-term basis and do not want to graduate to NBFC-UL.

114.3 Review of Assessment Methodology

The methodology for assessing the NBFC-UL shall be reviewed periodically.

Section V

Regulations applicable for NBFC-TL

115. NBFCs falling in the Top Layer of the regulatory structure shall, *inter alia*, be subject to higher capital charge. Such higher requirements shall be specifically communicated to the NBFC at the time of its classification in the Top Layer. There will be enhanced and intensive supervisory engagement with these NBFCs.

Section VI

[39]Specific Directions applicable for Non-Banking Financial Company – Micro Finance Institutions (NBFC-MFIs) and Microfinance Loans of other NBFCs

The instructions contained in **Section VI** for NBFC-MFIs and microfinance loans of other NBFCs are in addition and not in substitution to the other relevant instructions contained in these Directions.

Prudential Regulations

116.1 Capital Requirement

116.1.1 NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier 1 and Tier 2 capital which shall not be less than 15 percent of its aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items. The total of Tier 2 capital at any point of time, shall not exceed 100 percent of Tier 1 capital. The treatment to on-balance and off-balance sheet assets for capital adequacy shall be as provided in paragraph 84 and 85 of the Directions respectively. NBFC-MFIs shall also adhere to provisions in paragraph 86 of the Directions on treatment of deferred tax assets and deferred tax liabilities for computation of capital.

116.1.2 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 paragraph 84 of Chapter IX of these Directions.

116.2 Asset classification and provisioning norms

NBFC-MFIs shall adopt the following norms for their microfinance loans:

116.2.1 **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) Non-performing asset means an asset for which, interest/principal payment has remained overdue for a period of more than 90 days.

[39] Vide circular DoR.FIN.REC.95/03.10.038/2021-22 dated March 14, 2022.

116.2.2 **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 percent of the outstanding loan portfolio or

(b) 50 percent of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100 percent 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 15 of these Directions.

(iii) Standard assets provisioning of microfinance loans of NBFC-MFIs shall be in accordance with instructions contained in paragraph 16 and 88 of these Directions.

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

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

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

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.

117.2 NBFC-MFIs may act as Channelizing Agents for distribution of loans under special schemes of Central/State Government Agencies subject to following conditions:

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

(ii) 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-MFIs does not bear any credit risk;

(iii) all such loans shall be reported to Credit Information Companies to prevent multiple borrowings and present complete picture of indebtedness of a borrower.

118. Geographical Diversification

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

119. Formation of SRO

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

120. 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.

121. Directions for Microfinance Loans

Microfinance loans of NBFCs shall be guided by the Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, as amended from time to time. An NBFC, which does not qualify as an NBFC-MFI shall extend microfinance loans, which in aggregate does not exceed 25 percent of its total assets.

Section VII

[40]Specific Directions applicable for NBFC-Factors and NBFC-ICCs Registered under the Factoring Regulation Act, 2011

The instructions contained in **Section VII** for NBFC-Factors and NBFC-ICCs registered under the Factoring Regulation Act, 2011 are in addition and not in substitution to the other relevant instructions contained in these Directions.

122. Registration

122.1 Every company intending to undertake factoring business shall make an application to the Reserve Bank for grant of CoR as NBFC-Factor under section 3 of the Factoring Regulation Act, 2011 and shall ensure to comply with the principal business as mentioned in paragraph 123 of these Directions.

122.2 Any existing NBFC-ICC intending to undertake factoring business, shall make an application to the Reserve Bank for grant of CoR under the Factoring Regulation Act, 2011, if it satisfies the following eligibility criteria:

(i) Not accepting or holding public deposits;

(ii) Total assets of ₹1,000 crore and above, as per the last audited balance sheet;

(iii) Meeting the NOF requirement as prescribed in paragraph 6 of these Directions.

(iv) Regulatory compliance.

122.3 Any existing NBFC-ICC which does not satisfy the above conditions but intends to undertake factoring business, shall approach the Reserve Bank for conversion from NBFC-ICC to NBFC-Factor. Such NBFC-ICCs shall comply with the principal business as specified in paragraph 123 of these directions.

122.4 Application for conversion described at paragraph 122.3 above shall be submitted with all supporting documents meant for new registration as NBFC-Factor, together with surrender of original CoR issued by the Reserve Bank to the NBFC-ICC under section 45-IA of the RBI Act, 1934.

122.5 An entity not registered with the Reserve Bank under the Factoring Regulation Act, 2011 may conduct the business of factoring, if it is an entity mentioned in section 5

[40] 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)

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;

122.6 NBFC-Factor or NBFC-ICC which has been granted CoR by the Reserve Bank under the Factoring Regulation Act, 2011 shall commence factoring business within six months from the date of grant of CoR.

123. Principal Business for NBFC-Factors

An NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least 50 percent of its total assets and its income derived from factoring business is not less than 50 percent of its gross income.

124. Conduct of business and prudential regulations

NBFC-Factors or NBFC-ICCs which have been granted CoR under the Factoring Regulation Act, 2011 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 Reserve Bank from time to time.

125. Asset Classification

125.1 NBFCs-Factors with asset size of less than ₹500 crore

In addition to the Asset Classification norms contained in paragraph 14 of the Directions, for NBFC-Factors with asset size of less than ₹500 crore, a receivable acquired under factoring which has remained overdue for more than 180 days of due date as applicable, shall be treated as NPA irrespective of when the receivable was acquired by the NBFC-Factor or whether the factoring was carried out on "with recourse" basis or "without-recourse" basis. Further, glide path for recognition of NPA as prescribed in paragraph 14.2 of the Directions shall also be applicable to such NBFC-Factors. The entity on which the exposure was booked shall be shown as NPA and provisioning made accordingly.

125.2 NBFC-Factors with asset size of ₹500 crore and above and NBFC-ICCs granted CoR under the Factoring Regulation Act, 2011

In addition to the Asset Classification norms contained in paragraph 87 of the Directions, for NBFC-Factors with asset of size of ₹500 crore and above or an NBFC-ICC which have been granted CoR under the Factoring Regulation Act, 2011, a receivable acquired under factoring which has remained overdue for more than 90 days of due date as applicable,

shall be treated as NPA irrespective of when the receivable was acquired by the NBFC-Factor/concerned NBFC-ICC 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.

126. Reckoning of Exposure

Exposure norms shall be reckoned as under:

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

(ii) 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.

127. Risk Management

Proper and adequate control and reporting mechanism shall be put in place before factoring business is undertaken by an NBFC-Factor or eligible NBFC-ICC which has been granted CoR under the Factoring Regulation Act, 2011.

128. 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.

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

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

129.2 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.

130. Export/Import Factoring

Foreign Exchange Department (FED) of the Reserve Bank gives authorization to Factors under FEMA, 1999. NBFC-Factors or NBFC-ICCs which have been granted CoR under the Factoring Regulation Act, 2011, 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 of the Reserve Bank and all the relevant provisions of the FEMA or Rules, Regulations, Notifications, Directions or Orders made thereunder from time to time.

Section VIII

[41]Specific Directions applicable for Infrastructure Debt Funds - Non-Banking Financial Company (IDFs-NBFC)

The instructions contained in **Section VIII** for IDF-NBFCs are in addition and not in substitution to the other relevant instructions contained in these Directions.

131. The IDF shall be set up either as a trust or as a company. A trust based IDF is registered as IDF-Mutual Fund (MF) and is regulated by SEBI whereas a company based IDF is registered as an IDF-NBFC and is regulated by the Reserve Bank.

132. Raising of funds

132.1 IDF-NBFC shall raise funds through issue of either rupee or dollar denominated bonds of minimum five-year maturity. With a view to facilitate better asset-liability management (ALM), IDFs-NBFC can raise funds through shorter tenor bonds and commercial papers (CPs) from the domestic market to the extent of up to 10 percent of their total outstanding borrowings.

132.2 In addition to the bond route, IDFs-NBFC can also raise funds through loan route under external commercial borrowings (ECBs). However, such borrowings shall be subject to minimum tenor of five years and the ECB loans should not be sourced from foreign branches of Indian banks.

132.3 Regarding ECBs, IDFs-NBFC shall also be required to adhere to the guidelines issued by the Foreign Exchange Department of the Reserve Bank.

133. Guidelines governing sponsorship of IDF-MFs by NBFCs

133.1 All NBFCs shall be eligible to sponsor (sponsorship as defined by SEBI Regulations for Mutual Funds) IDF-MFs with prior approval of the Reserve Bank subject to the following conditions (based on the audited financial statements), in addition to those prescribed by SEBI:

(i) The NBFC shall have a minimum NOF of ₹300 crore and CRAR of 15 percent;

(ii) Its net NPAs shall be less than 3 percent of the net advances;

(iii) It shall have been in existence for at least 5 years;

[41] Vide circular DoR.SIG.FIN.REC.31/03.10.001/2023-24 dated August 18, 2023

(iv) It shall be earning profits for the last three years and its performance shall be satisfactory;

(v) The CRAR of the NBFC post investment in the IDF-MF shall not be less than the regulatory minimum prescribed for it;

(vi) The NBFC shall continue to maintain the required level of NOF after accounting for investment in the proposed IDF-MF;

(vii) There shall be no supervisory concerns with respect to the NBFC.

133.2 NBFCs that fulfil the eligibility criteria as above shall approach the Department of Regulation of the Reserve Bank, for prior approval to sponsor IDF-MFs.

Section IX

Ancillary

134. Reporting Requirements

The reporting requirements as prescribed by Department of Supervision of the Reserve Bank shall be adhered to by all NBFCs.

135. Interpretations

For the purpose of giving effect to the provisions of these Directions, the Reserve 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 Reserve Bank shall be final and binding on all the parties concerned. Violation of these Directions shall invite penal action under the provisions of the RBI Act, 1934. 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.

Section X

Illustrations

136. Illustrations on treatment for multiple NBFCs in the Group - Classification in Middle Layer

Example 1 - There are seven NBFCs in a Group – an NBFC-ICC with asset size of ₹300 crore, an HFC with asset size of ₹300 crore, an NBFC-IFC with asset size of ₹500 crore, an NBFC-MFI with asset size of ₹100 crore, an NBFC-P2P with asset size of ₹50 crore and NBFC without public funds and customer interface with asset size of ₹70 crore. How will these NBFCs be classified in various layers?

Explanation – On a standalone basis, as per SBR Regulatory Framework,

- HFCs and IFCs will, by default, be included in the Middle Layer but may move to the Upper Layer based on the supervisory filtering process.
- NBFC-ICC and NBFC-MFI will be classified in Base Layer (as their asset size constitutes less than ₹1000 crore in the example).
- NBFC-P2P and NBFC without public funds and customer interface will, by default, be included in the Base Layer.

Based on consolidation of assets of all the NBFCs in the Group, the consolidated asset size of NBFCs in the Group becomes ₹1320 crore (higher than the asset size threshold of ₹1000 core for classification in Middle Layer). As such, NBFC-ICC and NBFC-MFI will be classified in the Middle Layer. HFC and IFC will continue to be classified in the Middle Layer in this example. However, NBFC-P2P and NBFC without public funds and customer interface will continue to be classified in the Base Layer.

Example 2 - If the asset size of NBFC-ICC in the above example is ₹10 crore, then would it be still classified in Middle Layer?

Explanation - Yes, both NBFC-ICC and NBFC-MFI would still be classified in Middle Layer as the consolidated asset size of NBFCs in the Group at ₹1030 crore is higher than the asset size threshold of ₹1000 core for Middle Layer.

137. Illustrations on Date of Overdue and SMA/NPA Classification

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.

138. Illustrations on 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 percent 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 two 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.		

Section XI

Repeal

139. Repeal

139.1 With the issue of these Directions, the instructions/guidelines contained in the following circulars/Directions issued by the Reserve Bank, stand repealed (list as provided below). All approvals/acknowledgements given under circulars/Directions mentioned above 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/ Master Direction No.	Date	Subject
1.	DNBR.PD.008/03.10.119/2016-17	01-Sep-16	Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016
2.	DNBR.PD.007/03.10.119/2016-17	01-Sep-16	Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016
3.	DNBR.CC.PD.No.084/22.10.038/2016-17	02-Feb-17	Review of Guidelines on "Pricing of Credit"
4.	DNBR.PD.CC.No.085/03.10.001/2016-17	02-Mar-17	Infrastructure Financing- Definition of 'Infrastructure Lending'
5.	DNBR(PD).CC.No.086/03.10.001/2016-17	09-Mar-17	Disbursal of loan amount in cash
6.	DNBR(PD)CC.No.087/03.10.001/2017-18	06-Jul-17	Point of Presence (PoP) Services under Pension Fund Regulatory and Development Authority (PFRDA) for National Pension System (NPS)
7.	DNBR.PD.CC.No.090/03.10.001/2017-18	09-Nov-17	Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs

8.	DNBR.PD.CC.No.091/03.10.001/2017-18	23-Feb-18	Ombudsman Scheme for Non-Banking Financial Companies, 2018 - Appointment of the Nodal Officer/Principal Nodal Officer
9.	DNBR(PD)CC.No.092/03.10.001/2017-18	31-May-18	Withdrawal of Exemptions Granted to Government Owned NBFCs
10.	DNBR(PD)CC.No.097/03.10.001/2018-19	22-Feb-19	Harmonisation of different categories of NBFCs
11.	DNBR(PD)CC.No.098/03.10.001/2018-19	16-Apr-19	Licensing as Authorised Dealer- Category II
12.	DNBR(PD)CC.No.099/03.10.001/2018-19	16-May-19	Risk Management System – Appointment of Chief Risk Officer (CRO) for NBFCs
13.	DNBR(PD)CC.No.101/03.10.001/2019-20	02-Aug-19	Levy of foreclosure charges/pre-payment penalty on Floating Rate Loans by NBFCs
14.	DOR.NBFC(PD)CC.No.102/03.10.001/2019-20	04-Nov-19	Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies
15.	DOR.NBFC(PD)CC.No.103/22.10.038/2019-20	08-Nov-19	Qualifying Assets Criteria - Review of Limits
16.	DOR.NBFC(PD)CC.No.104/03.10.001/2019-20	08-Nov-19	Technical Specifications for All Participants of the Account Aggregator (AA) Ecosystem
17.	DOR.NBFC(PD).CC.No.108/03.10.001/2019-20	21-Jan-20	Lending against security of single product – Gold Jewellery
18.	DoR.NBFC.(PD).CC.No.110/03.10.001/2019-20	17-Apr-20	Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation
19.	DOR.ACC.REC.No.23/21.02.067/2021-22	24-Jun-21	Declaration of dividends by NBFCs
20.	DOR.ACC.REC.No.20/21.04.018/2022-23	19-Apr-22	Disclosures in Financial Statements- Notes to Accounts of NBFCs
21.	DOR.CAP.REC.No.21/21.06.201/2022-23	19-Apr-22	Scale Based Regulation (SBR) for NBFCs : Capital Requirements for Non-Banking Finance Companies - Upper Layer (NBFC-UL)
22.	DOR.CRE.REC.24/21.01.003/2022-23	19-Apr-22	Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL)

23.	DOR.CRE.REC.No.25/03.10.001/2022-23	19-Apr-22	Loans and Advances – Regulatory Restrictions - NBFCs
24.	DOR.GOV.REC.No.29/18.10.002/2022-23	29-Apr-22	Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs
25	DOR.STR.REC.40/21.04.048/2022-23	06-June-22	Provisioning for Standard Assets by Non-Banking Financial Company - Upper Layer
26	DOR.CRE.REC.No.78/03.10.001/2022-23	11-Oct-22	Multiple NBFCs in a Group: Classification in Middle Layer
27	DoR.SIG.FIN.REC.31/03.10.001/2023-24	18-Aug-2023	Review of Regulatory Framework for IDF-NBFCs

139.2 The instructions/guidelines contained in the following circulars issued by the Reserve Bank, had already been repealed earlier through Master Directions (as mentioned below), and thus these continue to remain repealed:

(i) DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016 - Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and

(ii) DNBR.PD.007/03.10.119/2016-17 dated September 01, 2016 - Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

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
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

Sr. No.	Circular No.	Date	Subject
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 04, 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/ C.C. No.96/ 03.10.001/2007-08	July 31, 2007	NBFCs - FIMMDA Reporting Platform for Corporate Bond Transactions
20	DNBS.PD/CC 104/ 03.10.042/2007-08	July 11, 2007	Guidelines on Corporate Governance

Sr. No.	Circular No.	Date	Subject
21	DNBS.PD/CC.No./ 03.10.042/2007-08	October 10, 2007	Guidelines on Fair Practices Code for Non-Banking Financial Companies
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). CC.131/ 03.05.002/2008-09	October 29, 2008	Enhancement of NBFCs' capital raising option for capital adequacy purposes
27	DNBS (PD) C.C.No.133/ 03.10.001/2008-09	January 02, 2009	Regulation of excessive interest charged by NBFCs
28	DNBS (PD) CC. No.134/ 03.10.001/2008-2009	February 04, 2009	Ratings of NBFCs
29	DNBS (PD) CC.No.139/ 03.10.001/2008-09	April 24, 2009	Clarification regarding repossession of vehicles financed by NBFCs
30	DNBS (PD) CC. No.141/ 03.10.001/2008-09	June 04, 2009	Applicability of NBFCs-ND-SI regulations
31	DNBS.PD/CC.No.142/ 03.05.002 /2008-09	June 09, 2009	NBFCs - Treatment of Deferred Tax Assets/Deferred Tax Liabilities for Computation of Capital
32	DNBS.PD.CC.No.161/ 3.10.01/ 2009-10	September 18, 2009	Introduction of Interest Rate Futures- NBFCs
33	DNBS.PD/CC.No.165/ 03.05.002/2009-10	December 01, 2009	Capital Adequacy - Risk weightage on Lending through Collateralized Borrowing and Lending Obligation (CBLO)
34	DNBS.PD.CC.No.168/ 03.02.089 /2009-10	February 12, 2010	Infrastructure Finance Companies
35	DNBS(PD).CC.No.173/ 03.10.01 /2009-10	May 03, 2010	Overseas Investment by NBFCs- No Objection (NoC) from DNBS, RBI

Sr. No.	Circular No.	Date	Subject
36	DNBS(PD)C.C No. 174/ 03.10.001/2009-10	May 06, 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
37	DNBS.CC.PD.No.191/ 03.10.01/2010-11	July 27, 2010	Loan facilities to the physically / visually challenged by NBFCs
38	DNBS(PD)CC No.195/ 03.10.001/ 2010-11	August 09, 2010	Participation in Currency Futures
39	DNBS.PD/CC.No.196/ 03.05.002/2010-11	August 11, 2010	Ready Forward Contracts in Corporate Debt Securities
40	DNBS (PD) CC No.199/ 03.10.001/2010-11	September 16, 2010	Participation in Currency Options
41	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
42	DNBS.CC.PD.No.208/ 03.10.01/2010-11	January 27, 2011	Services to Persons with Disability - Training Programme for Employees
43	DNBS (PD) CC. No.213/ 03.10.001/2010-2011	March 16, 2011	Amendment to Definition of Infrastructure Loan
44	DNBS.PD/CC.NO.214/ 03.02.002/2010-11	March 30, 2011	NBFCs not to be Partners in Partnership firms
45	DNBS.PD.CC.No.221/ 03.02.002/2010-11	May 27, 2011	Review of Guidelines on entry of NBFCs into Insurance Business
46	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
47	DNBS(PD).CC.No.245 /03.10.42 /2011-12	September 27, 2011	Attempt to defraud using fake bank guarantee-modus operandi
48	DNBS(PD).CC.No248/ 03.10.01 /2011-12	October 28, 2011	Implementation of Green Initiative of the Government
49	DNBS.PD.CC.No.249/ 03.02.089/2011-12	November 21, 2011	NBFCs - Infrastructure Debt Funds

Sr. No.	Circular No.	Date	Subject
50	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
51	DNBS.CC.PD.No.252/ 03.10.01/2011-12	December 26, 2011	Revised Capital Adequacy Framework for Off-Balance Sheet Items for NBFCs
52	DNBS.CC.PD.No.253/ 03.10.01/2011-12	December 26, 2011	Credit Default Swaps – NBFCs as Users
53	DNBS.CC.PD.No.254/ 03.10.01/2011-12	December 30, 2011	Revised Capital Adequacy Framework for Off-Balance Sheet Items for NBFCs-Clarification
54	DNBS.CC.PD.No.255/ 03.10.01/2011-12	December 30, 2011	Issuance of Non-Convertible Debentures (NCDs)
55	DNBS(PD)CC.No.259 / 03.02.59/2011-12	March 15, 2012	Non- Reckoning Fixed Deposits with Banks as Financial Assets
56	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
57	DNBS.CC.PD.No.265/ 03.10.01/2011-12	March 21, 2012	NBFCs - Lending Against Security of Single Product – Gold Jewellery
58	DNBS.CC.PD.No.266 /03.10.01/2011-12	March 26, 2012	Guidelines on Fair Practices Code for NBFCs
59	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)
60	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
61	DNBS(PD)CC.No.297/Factor/22.10.91/2012-13	July 23, 2012	The Non-Banking Financial Company – Factors (Reserve Bank) Directions, 2012
62	DNBS(PD).248/CGM(US)-2012	August 01, 2012	Revised Capital Adequacy Framework for Off-Balance sheet items for NBFCs - Clarifications
63	DNBS(PD).249/CGM(US) -2012	August 01, 2012	Revised Capital Adequacy Framework for Off-Balance sheet items for NBFCs - Clarifications

Sr. No.	Circular No.	Date	Subject
64	DNBS (PD) CC.No.300/ 03.10.038/2012-13	August 03 , 2012	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
65	DNBS.PD.No.301/ 3.10.01/2012-13	August 21, 2012	Revisions to the Guidelines on Securitisation Transactions
66	DNBS(PD)CC.No.303/ Factor/22.10.91/2012-13	September 14, 2012	The Non-Banking Financial Company – Factors (Reserve Bank) Directions, 2012
67	DNBS.PD/CC.NO.308/ 03.10.001/2012-13	November 6, 2012	Standardisation and Enhancement of Security Features in Cheque Forms - Migrating to CTS 2010 Standards
68	DNBS(Inf).CC.No.309/ 24.01.022/2012-13	November 08, 2012	Readiness of major service providers to migrate from IPv4 to IPv6
69	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
70	DNBS.PD.CC.No.317/ 03.10.001/2012-13	December 28, 2012	Definition of 'Infrastructure Loan' of NBFCs - Harmonisation
71	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
72	DNBS.CC.PD.No.326/ 03.10.01/2012-13	May 27, 2013	NBFCs finance for Purchase of Gold
73	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
74	DNBS.PD/CC.No.328/ 03.02.002/2012-13	June 11, 2013	NBFCs not to be Partners in Partnership Firms - Clarifications
75	DNBS(PD)CC.No.353/ 03.10.042/2013-14	July 26, 2013	Unsolicited Commercial Communication-National Do Not Call Registry
76	DNBS.PD.CC.No.354/ 03.10.001/2013-14	August 02, 2013	Financing of Infrastructure - Definition of 'Infrastructure Lending'
77	DNBS.CC.PD.No.356/ 03.10.01/2013-14	September 16, 2013	Lending Against Security of Single Product – Gold Jewellery

Sr. No.	Circular No.	Date	Subject
78	DNBS.PD/CC.No.359/ 03.10.001/2013-14	November 06, 2013	Migration of Post-dated cheques (PDC)/Equated Monthly Installment (EMI) Cheques to Electronic Clearing Service (Debit)
79	DNBS.(PD).CC.No 360/ 03.10.001/2013-14	November 12, 2013	Filing of records of equitable mortgages with the Central Registry
80	DNBS.PD.CC.No 361/ 03.02.002/2013-14	November 28, 2013	Participation of NBFCs in Insurance sector
81	DNBS.PD.CC.No. 362/ 03.10.001/2013-14	November 29, 2013	Financing of Infrastructure - Definition of 'Infrastructure Lending'
82	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
83	DNBS.CC.PD.No.365/ 03.10.01/2013-14	January 08, 2014	Lending Against Security of Single Product – Gold Jewellery
84	DNBS.CO.PD.No.367/ 03.10.01/2013-14	January 23, 2014	Review of Guidelines on Restructuring of Advances by NBFCs
85	DNBS (PD) CC.No.369/ 03.10.038/2013-14	February 07, 2014	'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions – Modifications in "Pricing of Credit"
86	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
87	DNBS.PD.CC.No.372/ 3.10.01/2013-14	March 24, 2014	Revision to the Guidelines on Securitisation Transactions - Reset of Credit Enhancement
88	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
89	DNBS (PD).CC.No.374/ 03.10.001/2013-14	April 07, 2014	Registration of Non-Operative Financial Holding Companies (NOFHCs)

Sr. No.	Circular No.	Date	Subject
90	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
91	DNBS.CC.PD.No.377/ 03.10.01/2013-14	May 27, 2014	Rounding off transactions to the Nearest Rupee by NBFCs
92	DNBS(PD).CC.No.399/ 03.10.42/2014-15	July 14, 2014	Levy of foreclosure charges/pre-payment penalty on Floating Rate Loans
93	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)
94	DNBS.CC.PD.No.406/ 03.10.01/2014-15	August 12, 2014	Interest Rate Futures - NBFCs
95	DNBS (PD).CC. No 407/ 03.10.01 /2014-15	August 20, 2014	Data Format for Furnishing of Credit Information to Credit Information Companies (CICs) and other Regulatory Measures
96	DNBS (PD).CC.No. 408/ 03.10.001/2014-15	August 21, 2014	NBFCs- Lending against Shares
97	DNBR (PD) CC.No.002/ 03.10.001/2014-15	November 10, 2014	Revised Regulatory Framework for NBFC
98	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
99	DNBR.CO.PD.No.011/ 03.10.01/2014-15	January 16, 2015	Review of Guidelines on Restructuring of Advances by NBFCs
100	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
101	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
102	DNBR.(PD).CC.No.019/ 03.10.001/2014-15	February 06, 2015	Membership of Credit Information Companies (CICs)
103	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

Sr. No.	Circular No.	Date	Subject
104	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
105	DNBR.009/CGM(CDS)-2015	March 27, 2015	Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015
106	DNBR.011/CGM.(CDS)-2015	March 27, 2015	Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (Amendment)
107	DNBR.012/CGM (CDS)-2015	March 27,2015	Non-Banking Financial Company - Factor (Reserve Bank) Directions, 2012 (Amendment)
108	DNBR.CC.PD.No.027/ 03.10.01/2014-15	April 08, 2015	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
109	DNBR(PD).CC.No.028/ 03.10.001/2014-15	April 10, 2015	NBFCs- Lending against Shares – Clarification
110	DNBR(PD).CC.No.029/ 03.10.001/ 2014-15	April 10, 2015	Guidelines on Corporate Governance - Review
111	DNBR.(PD).CC.No. 033/03.10.001/2014-15	April 30, 2015	Distribution of Mutual Fund products by NBFCs
112	DNBR(PD)CC.No.035/ 03.10.001/2014-15	May 14, 2015	Infrastructure Debt Funds (IDFs)
113	DNBR.CC.PD.No.036/03 .10.01/2014-15	May 21, 2015	Lending against security of single product - Gold Jewellery
114	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)
115	DNBR(PD)CC.No.064/ 03.10.001/2015-16	July 02, 2015	Applicability of Credit Concentration Norms

Sr. No.	Circular No.	Date	Subject
116	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)
117	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)
118	DNBR.CO.PD.No.067/ 03.10.01/2015-16	July 30, 2015	Review of Guidelines on Restructuring of Advances by NBFCs
119	DNBR.CC.PD.No.069/ 03.10.01/ 2015-16	October 01, 2015	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
120	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)
121	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
122	DNBR(PD).CC.No.072/ 03.10.001/2015-16	January 28, 2016	Provision of Safe Deposit Locker facility by NBFCs
123	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)
124	DNBR.CC.PD.No.074/ 03.10.01/2015-16	February 18, 2016	NBFC – Factors (Reserve Bank) Directions, 2012 – Review

Sr. No.	Circular No.	Date	Subject
125	DNBR (PD) CC.No.076/ 03.10.001/2015-16	March 10, 2016	Review of risk weights assigned to sovereign debt
126	DNBR (PD) CC.No.077/ 03.10.001/2015-16	April 7, 2016	Applicability of Concentration of Credit/ Investment Norms
127	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
128	DNBR(PD).CC.No.079/ 03.10.001/2015-16	April 21, 2016	Infrastructure Debt Funds (IDFs)
129	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
130	DNBR.CC.PD.No.082/ 03.10.001/2015-16	June 2, 2016	Refinancing of Project Loans
131	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

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Annexures

Annex I

Scoring Methodology for Identification of NBFC as NBFC-UL

Upper Layer shall be populated with NBFCs, identified by way of a parametric scoring methodology, comprising of quantitative and qualitative parameters/supervisory judgment. The quantitative and qualitative parameters shall have weightage of 70 percent and 30 percent respectively. Scoring methodology for identification of an NBFC as NBFC-UL shall be based on the set of NBFCs fulfilling the following criteria:

(i) Top 50 NBFCs (excluding top ten NBFCs based on asset size, which automatically fall in the Upper Layer) based on their total exposure including credit equivalent of off-balance sheet exposure.

(ii) NBFCs designated as NBFC-UL in the previous year.

(iii) NBFCs added to the set by supervisors using supervisory judgment.

The computation of scores of all NBFCs in the above set shall be performed annually based on their position as on March 31 each year.

<table>
<tr><th colspan="5">Components of the parametric analysis</th></tr>
<tr><th></th><th>Parameter</th><th>Sub-Parameters</th><th>Sub-Para Weights</th><th>Parameter Weights</th></tr>
<tr><td rowspan="3">Quantitative Parameter (70%)</td><td>1. Size & Leverage</td><td>Total exposure (on and off-balance sheet) and
Leverage (total debt to total equity)</td><td>20 + 15</td><td>35</td></tr>
<tr><td rowspan="2">2. Interconnectedness</td><td>(i) Intra-financial system assets
• Lending to financial institutions (including undrawn committed lines);
• Holdings of securities issued by other financial institutions.
• Net mark-to-market reverse repurchase agreements with other financial institutions.
• Net mark-to-market OTC derivatives with financial institutions</td><td>10</td><td rowspan="2">25</td></tr>
<tr><td>(ii) Intra-financial system liabilities
• Borrowings from financial institutions (including undrawn committed lines)</td><td>10</td></tr>
</table>

		• All marketable securities issued by the finance company to financial institutions; • Net mark-to-market repurchase agreements with other financial institutions; • Net mark-to-market OTC derivatives with financial institutions		
		(iii) Securities outstanding with non-financial institutions (issued by an NBFC)	5	
	3. Complexity	*(i) Notional Amount of Over-the-Counter (OTC) Derivatives* • OTC derivatives cleared through a central counterparty • OTC derivatives settled bilaterally	5	10
		(ii) Trading and Available-for-Sale Securities	5	
Qualitative Parameter/ Supervisory Inputs (30%)	**4. Nature and type of liabilities**	• The amount and type of liabilities, including the degree of reliance on short-term funding • Liquid asset ratios, which are intended to indicate an NBFC's ability to repay its short-term debt. • The ratio of unencumbered and highly liquid assets to the net cash outflows that an NBFC could encounter in a short-term stress scenario. • Callable debt as a fraction of total debt, which provides one measure of an NBFC's ability to manage its funding position in response to changes in interest rates. • Asset-backed funding versus other funding, to determine an NBFC's susceptibility to distress in particular credit markets. • Asset-liability duration and gap analysis, which is intended to indicate how well an NBFC is matching the re-pricing and maturity of an NBFC's assets and liabilities.	10	30

		• A study on the borrowings split by type, i.e., secured debt securities; subordinated debt securities; preferred shares/ CCPS; CPs; unsecured debt; securitisation and any other		
	5. Group Structure	• Total Number of entities • Total number of layers • Total Intra group exposure	10	
	6. Segment Penetration	The importance of an NBFC as a source of credit to a specific segment or area.	10	
		Total Score		**100**

Annex II

Regulatory Guidance on Implementation of Indian Accounting Standards by NBFCs[42]

The responsibility of preparing and ensuring fair presentation of the financial statements of an 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 **Annex II**, 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

1.1 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.

1.2 NBFCs shall frame their policy for sales out of amortised cost business model portfolios and disclose the same in their notes to financial statements.

1.3 The Reserve Bank expects the Board of Directors to approve sound methodologies[43] for computation of Expected Credit Losses (ECL) that address policies,

[42] NBFCs that are required to implement Ind AS in terms of Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time.

[43] 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

procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile 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.

1.4 Ind AS 109 does not explicitly define default[44], 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.

1.5 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

supervisory guidance and inter-alia cover Board/Senior Management's responsibilities, adoption of sound methodologies for credit risk measurement, disclosure requirements etc.

[44]Paragraph 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."

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.

2. Prudential Floor for ECL

2.1 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 II-A) 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, supervisors of the Reserve Bank and other stakeholders, on the adequacy of provisioning for credit losses.

2.2 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 of the Reserve Bank.

2.3 The requirement for 'Impairment Reserve' shall be reviewed, going forward.

3. Computation of Regulatory Capital and Regulatory Ratios

3.1 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 1 capital as defined in paragraph 5.1.34 of these Directions; 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 1 capital as specified in paragraph 5.1.34 of the 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 2 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 2 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 percent of the amount of credit enhancement given from Tier 1 capital and the balance from Tier 2 capital.

3.2 Regulatory ratios, limits and disclosures shall be based on Ind AS figures. Impaired assets and restructured assets shall be considered as NPA for calculation of NPA ratios.

Appendix II-A

Template for Disclosure in Notes to Financial Statements

Asset Classification as per norms of the Reserve Bank	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					

Annex III

Norms on Restructuring of Advances by NBFCs

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 'Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' dated July 1, 2013. The same is given in Appendix III-C.

2. Key Concepts

Key concepts used in these norms are defined in Appendix III-B.

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:

(i) Project Loans for infrastructure sector

(ii) 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 lending shall be as defined in paragraph 5.1.14 of these Directions.

3.3 Project Loans for Infrastructure Sector

3.3.1 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 paragraphs 3.3.3 to 3.3.5 below.

3.3.2 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 paragraphs 3.3.3 to 3.3.5 below.

3.3.3 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 paragraph 3.3.2, 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 paragraph 3.3.2, i.e. total extension of 3 years), in other than court cases.

3.3.4 It is re-iterated that the dispensation in paragraph 3.3.3 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:

Particulars	Provisioning Requirement		
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	*	0.25%	
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	Project loans restructured with effect from January 24, 2014:		
	*	5.00% - From the date of such restructuring till the revised DCCO or 2 years from the-date of restructuring, whichever is later.	
		Stock of project loans classified as restructured as on January 23, 2014:	
		-	2.75% - with effect from March 31, 2014
		-	3.50% - with effect from March 31, 2015 (spread over the four quarters of 2014-15)
		-	4.25% - with effect from March 31, 2016 (spread over the four quarters of 2015-16)
		-	5%- with effect from March 31, 2017 (spread over the four quarters of 2016-17)
	*	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.	

3.3.5 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 percent.

3.3.5.1 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 paragraph 3.3.3 (a) to (b) above; however, in that case, NBFCs shall not be able to retain the ‘standard’ asset classification status of such loan accounts.

3.3.5.2 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 paragraph 3.3.3(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 percent 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.

3.3.5.3(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 and 3.3.5 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 and 3.3.5 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.

3.3.5.3(b) It is clarified that in cases where change in ownership and extension of DCCO [as indicated in paragraph 3.3.5.3(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 and 3.3.5 above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 3.3.5 above, the account may still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 3.3.3 above, without classifying the account as non-performing asset.

3.3.5.3(c) The provisions contained in paragraphs 3.3.5.3(a) and 3.3.5.3(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 percent 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 percent, the new promoter shall own at least 26 percent 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 clause (ii) of paragraph 3.3.5.2 above 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 percent 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.

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

3.3.6 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:

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

(ii) The loan disbursement is yet to begin;

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

(iv) 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)

3.4.1 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 paragraphs 3.4.3 to 3.4.4 below.

3.4.2 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 paragraphs 3.4.3 to 3.4.4 below.

3.4.3 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:

(i) 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.

(ii) 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%</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% – 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% - with effect from March 31, 2014</td></tr>
</table>

		-	3.50% - with effect from March 31, 2015 (spread over the four quarters of 2014-15)
		-	4.25% - with effect from March 31, 2016 (spread over the four quarters of 2015-16)
		-	5% - 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.	

3.4.4 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 percent.

3.4.5(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 clause (i) and (ii) of paragraph 3.4.3 above; however, in that case, NBFCs shall not be able to retain the ‘standard’ asset classification status of such loan accounts.

3.4.5(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 clause (i) and (ii) of paragraph 3.4.3 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 percent 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.

3.4.5(c)(i) 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 3.4.3 and 3.4.4 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 3.4.3 and 3.4.4 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.

3.4.5(c) (ii) It is clarified that in cases where change in ownership and extension of DCCO (as indicated in paragraph 3.4.5(c)(i) 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 3.4.3 and 3.4.4 above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 3.4.4 above, the account may

still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 3.4.3 above, without classifying the account as non-performing asset.

3.4.5(c) (iii) The provisions contained in sub paragraphs 3.4.5(c)(i) and 3.4.5(c)(ii) above are subject to the following conditions:

(a) 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;

(b) 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;

(c) The new promoters shall own at least 51 percent 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 percent, the new promoter shall own at least 26 percent 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;

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

(e) 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;

(f) 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;

(g) 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 clause (ii) of paragraph 3.4.5 (b) above shall be treated as an event of restructuring even if the extension of DCCO is within the limits prescribed above;

(h) 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 percent of the economic life/concession period of the project; and

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

(j) Loans covered under these guidelines shall attract provisioning as per the extant provisioning norms depending upon their asset classification status.

3.5 Other Issues

3.5.1 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:

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

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

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

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

3.5.2 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.

3.5.3 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

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

3.6.2 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:

(i) 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.

(ii) 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 evergreening 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 III-A. 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:

(i) before commencement of commercial production/operation;

(b) after commencement of commercial production/operation but before the asset has been classified as 'sub-standard';

(ii) 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 III-B), 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 III-B) 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 III-B) 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 percent in respect of new restructured standard accounts (flow) with effect from January

24, 2014 and 5 percent 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 and Loss Account. Such provision shall be held in addition to the provisions as per existing provisioning norms as indicated in paragraph 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. paragraph 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 ₹1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit and 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 ₹1 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 percent 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 ₹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 ₹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 paragraph 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 percent 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 prepay. 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 percent 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 percent 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 percent of NBFCs' sacrifice or 2 percent 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 III-D. 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 III-D, 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 evergreening 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 III-A

Broad Benchmarks for the Viability Parameters

1. Return on capital employed shall be at least equivalent to 5 year Government security yield plus 2 percent.
2. 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.
3. The benchmark gap between internal rate of return and cost of capital shall be at least 1 percent.
4. Operating and cash break even points shall be worked out and they shall be comparable with the industry norms.
5. 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.
6. Loan life ratio (LLR), as defined below shall be 1.4, which would give a cushion of 40 percent to the amount of loan to be serviced.

$$\text{LLR} = \frac{\text{Present Value of total available cash flow (ACF)}}{\text{during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

Appendix III-B

Key Concepts

1. 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.

2. 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.

3. 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.

4. 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'.

5. SMEs

Small and Medium Enterprise (SME) is an undertaking defined in circular 'Credit flow to Micro, Small and Medium Enterprises Sector' dated April 4, 2007, as amended from time to time.

6. 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.

7. 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.

Notes:

(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 III-C

Organisational Framework for Restructuring of Advances Under Consortium/ Multiple Banking/Syndication Arrangements

1. 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:

(i) The borrowers enjoy credit facilities from more than one bank/FI under multiple banking/syndication/consortium system of lending.

(ii) 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 Reserve Bank 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 percent 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 percent 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 on 'Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)' dated September 24, 2015. 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 percent of the creditors (by value) and 60 percent 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 percent 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 SARFAESI 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 three years and subject to renewal for further periods of three 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 percent of creditors by value and 60 percent 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 percent of the creditors by value and 60 percent 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 percent by value and 60 percent 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 percent and 60 percent) does not wish to commit additional financing, that creditor shall have an option in accordance with the provisions of paragraph 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 paragraph 5.4.1, a creditor (outside the minimum 75 percent and 60 percent) 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 percent of creditors (by value) and 60 percent 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 the Reserve Bank. 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 percent 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 percent 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 the Reserve Bank. 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 III-D

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 restructured standard category during the FY	No. of borrowers																				
		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	No. of borrowers																				
		Amount outstanding																				

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																					
	and hence need not be shown as restructured standard advances at the beginning of the next FY																					
		Provision thereon																				
5	Downgradation 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 IV

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 NBFCs shall recognise incipient stress in loan accounts, immediately on default[45], 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 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 Reserve Bank in its circular 'Central Repository of Information on Large Credits (CRILC) – Revision in Reporting' dated February 13, 2014 issued by the Department of Supervision. All NBFC-Factors, NBFC-D and non-deposit taking NBFCs of asset size of ₹500 crore and above (Notified NBFCs), shall be required to report the relevant credit information to CRILC. 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.

1.1.3 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.

[45] '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.

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) as envisioned in paragraph 2 of Appendix IV-A 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.

1.2 Accelerated Provisioning

1.2.1 In cases where notified 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, notified NBFCs shall be subjected to accelerated provisioning for these accounts and/ or other supervisory actions as deemed appropriate by the Reserve Bank. 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 (unsecured ab-initio)	Up to 6 months	--		25
		--		
	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 and 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 its 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 percent. 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 percent.

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.

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.

Appendix IV-A

1. Formation of Joint Lenders Forum (JLF)

1.1 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:

2.1.1 **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 evergreening the account.

2.1.2 **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.

2.1.3 **Recovery** - Once the first two options at paragraphs 2.1.1 and 2.1.2 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 optimise the efforts and results.

2.2 The decisions agreed upon by a minimum of 75 percent of creditors by value and 60 percent 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 at paragraph 2.1.1 or 2.1.2, but the account fails to perform as per the agreed terms under either of these options, the JLF shall initiate recovery under option at paragraph 2.1.3.

3. Restructuring Process

3.1 Extant prudential guidelines of the Reserve Bank 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 paragraph 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)[46] 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

[46] The constitution of the IEC and the funding needs for payment of fees for independent experts would be decided by IBA in consultation with the Reserve Bank.

standard/sub-standard in the books of at least 90 percent 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

If the JLF decides to refer the account to CDR Cell after a decision to restructure is taken under paragraph 2.1, the following procedure shall be followed.

(i) 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.

(ii) 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.

(iii) 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:

(i) Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;

(ii) Promoters infusing more equity into their companies;

(iii) 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:

(i) Prior agreement in the ICA among the above classes of lenders regarding repayments, say, as per an agreed waterfall mechanism;

(ii) A structured agreement stipulating priority of secured creditors;

(iii) 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, guidelines of the Reserve Bank 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 V

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 the Reserve Bank, 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 percent (leaving a tail of 20 percent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80 percent 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 percent 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, as per applicable instructions, 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 percent (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 percent (refer note 1 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 the Reserve Bank) 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 percent (leaving a tail of 15 percent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 percent 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 percent 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 applicable instructions.

(iii) If a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per paragraph 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 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 paragraph 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 (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 these instructions.

Note:

A relaxation of only 5 percent of initial economic life is provided in case of delay in achieving DCCO from the 80 percent ceiling of amortisation of project debt prescribed in paragraph 2(iii). NBFCs may factor the same while determining Original Amortisation Schedule.

Annex VI

Guidelines on Liquidity Risk[47] Management Framework

Non-deposit taking NBFCs with asset size of ₹100 crore and above, Core Investment Companies and all deposit taking NBFCs 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.

1. Liquidity Risk Management Policy, Strategies and Practices
2. Management Information System (MIS)
3. Internal Controls
4. Maturity profiling
5. Liquidity Risk Measurement – Stock Approach
6. Currency Risk
7. Managing Interest Rate Risk
8. Liquidity Risk Monitoring Tools

1. 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[48], 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

[47] "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.

[48] "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.

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:

1.1 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 to integrate basic operations and strategic decision-making with risk management. The Chief Risk Officer appointed by the NBFC in terms of paragraph 95 of these Directions 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:

1.1.1. 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.

1.1.2 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.

1.1.3 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.

1.2 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.

1.3 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.

1.4 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.

1.5 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.

1.6 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.

1.7 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.

1.8 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.

1.9 Public disclosure

An NBFC shall publicly disclose information (Appendix VI-A) on a quarterly basis on the official website of the company and in the annual financial statements 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.

1.10 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[49]. 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.

2. 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.

3. 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.

4. Maturity Profiling

4.1 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 for measuring the future cash flows of NBFCs in different time buckets. The Maturity Profile as given in Appendix VI-A 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)

[49] As defined in paragraph 5.1.4 of these Directions

(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

4.2 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.

4.3 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.

4.4 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.

4.5 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 the Reserve Bank under whose jurisdiction the registered office of the company is located.

4.6 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 percent, 10 percent and 20 percent 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.

4.7 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.

4.8 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.

5. 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[50] 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.

6. Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile of an NBFCs’ 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.

7. Managing Interest Rate Risk (IRR)

7.1 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

[50] Less than one year

the intention of the Reserve Bank 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.

7.2 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 changes of the Reserve Bank in the interest rates/Bank Rate;

(iv) it is contractually pre-payable or withdrawal before the stated maturities.

7.3 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 are basically floating. The interest rates on advances received could be repriced any number of occasions, corresponding to the changes in Prime Lending Rate (PLR).

7.4 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 VI-C.

7.5 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.

7.6 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.

7.7 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 VI-A and VI-B** 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 the Reserve Bank 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.

7.8 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.

7.9 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 VI-A

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 percent of total deposits)

(iii) Top 10 borrowings (amount in ₹ crore and percent 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 percent of total public funds, total liabilities and total assets

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

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

(vi) Institutional set-up for liquidity risk management

Appendix VI-B

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 the Reserve Bank, 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) AIF 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) Sub-standard	
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) Doubtful and loss	
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.
C. Contingent liabilities	
(a) Letters of credit/guarantees (outflow through devolvement)	Based on the past trend analysis of the devolvement vis-à-vis the outstanding

	amount of guarantees (net of margins held), the likely devolvement shall be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvement 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.

Note:

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.

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

(ii) 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 VI-C

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. Government 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-standard 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 discounted & rediscounted	Sensitive on maturity. To be slotted as per the 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. Non-performing loans: (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 VI-B.
7. Assets on lease	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. Fixed assets (excluding assets on lease)	Non-sensitive.
9. Other assets	
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. Other (interest rate) products	
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 VII

Disclosures in Financial Statements – Notes to Accounts of NBFCs

General

1. The formats for disclosures specified below are common templates for all categories of NBFCs (i.e., Investment and Credit Companies, Housing Finance Companies, Core Investment Companies, etc.). Individual NBFCs may omit those line items/disclosures which are not applicable/not permitted or with no exposure/no transaction both in the current year and previous year.

2. It may be noted that mere mention of an activity, transaction or item in the disclosure template does not imply that it is permitted, and NBFCs shall refer to the extant statutory and regulatory requirements while determining the permissibility or otherwise of an activity or transaction.

3. NBFCs shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. Further, NBFCs shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

Disclosure Templates

Section I

(Applicable for annual financial statements of NBFC-BL, NBFC-ML and NBFC-UL)

1. Exposure

1.1. Exposure to real estate sector

(Amount in ₹ crore)

Category	Current year	Previous Year
i) Direct exposure a) Residential Mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented. Exposure would also include non-fund based (NFB) limits. b) Commercial Real Estate – Lending secured by mortgages on commercial real estate (office buildings, retail space, multipurpose commercial premises, multifamily residential buildings, multi tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits. c) Investments in Mortgage-Backed Securities (MBS) and other securitized exposures – i. Residential ii. Commercial Real Estate ii) Indirect Exposure Fund based and non-fund-based exposures on National Housing Bank and Housing Finance Companies.		
Total Exposure to Real Estate Sector		

1.2. Exposure to capital market

(Amount in ₹ crore)

Particulars[51]	Current Year	Previous Year
i) Direct investment in equity shares, convertible bonds, convertible debentures and units of equity oriented mutual funds the corpus of which is not exclusively invested in corporate debt		
ii) Advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ ESOPs), convertible bonds, convertible debentures, and units of equity oriented mutual funds		
iii) Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security		
iv) Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/ convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances		

[51]NBFCs may omit those line items which are not applicable/not permitted or have nil exposure both in current and previous year. Further, exposures against pledge of shares by promoters of a company shall be shown separately under the respective line items.

Particulars [51]	Current Year	Previous Year
v) Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers		
vi) Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources		
vii) Bridge loans to companies against expected equity flows / issues		
viii) Underwriting commitments taken up by the NBFCs in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds		
ix) Financing to stockbrokers for margin trading		
x) All exposures to Alternative Investment Funds: (i) Category I (ii) Category II (iii) Category III		
Total exposure to capital market		

1.3. Sectoral exposure

Sectors	Current Year			Previous Year		
	Total Exposure (includes on balance sheet and off-balance sheet exposure) (₹ crore)	Gross NPAs (₹ crore)	Percentage of Gross NPAs to total exposure in that sector	Total Exposure (includes on balance sheet and off-balance sheet exposure) (₹ crore)	Gross NPAs (₹ crore)	Percentage of Gross NPAs to total exposure in that sector
1. Agriculture and Allied Activities						
2. Industry						
i….						
ii….						
Others						
Total of Industry (i+ii+…+Others)						
3. Services						
i…						
ii…						
Others						
Total of Services (i+ii+…+Others)						
4. Personal Loans						
i…						
ii…						
Others						
Total of Personal Loans (i+ii+…+Others)						
5. Others, if any (please specify)						

Notes:

(i) The disclosures as above shall be based on the sector-wise and industry-wise bank credit (SIBC) return submitted by scheduled commercial banks to the Reserve Bank and published by the Reserve Bank as 'Sectoral Deployment of Bank Credit'.

(ii)In the disclosures as above, if within a sector, exposure to a specific sub-sector/industry is more than 10 percent of Tier 1 capital of an NBFC, the same shall be disclosed separately within that sector. Further, within a sector, if exposure to specific sub-sector/industry is less than 10 percent of Tier 1 capital, such exposures shall be clubbed and disclosed as "Others" within that sector.

1.4. Intra-group exposures

NBFCs shall make the following disclosures for the current year with comparatives for the previous year:

(i) Total amount of intra-group exposures

(ii)Total amount of top 20 intra-group exposures

(iii) Percentage of intra-group exposures to total exposure of the NBFC on borrowers/customers

1.5. Unhedged foreign currency exposure

NBFCs shall disclose details of its unhedged foreign currency exposures. Further, it shall also disclose their policies to manage currency induced risk.

2. Related Party Disclosure

Related Party / Items	Parent (as per ownership or control)		Subsidiaries		Associates/ Joint ventures		Key Management @		Relatives of Key Management Personnel @		Others*		Total	
	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous Year	Current year	Previous year
Borrowings#														
Deposits#														

Placement of deposits#														
Advances#														
Investments #														
Purchase of fixed/other assets														
Sale of fixed/other assets														
Interest paid														
Interest received														
Others*														

@Disclosures for directors and relatives of directors should be made separately in separate columns from other KMPs and relatives of other KMPs.

The outstanding at the year end and the maximum during the year are to be disclosed

* Specify item if total for the item is more than 5 percent of total related party transactions. Related parties would include trusts and other bodies in which the NBFC can directly or indirectly (through its related parties) exert control or significant influence.

1. Related party, in the context of the aforementioned disclosure, shall include all related parties as per the applicable accounting standards. Further, related party shall also include following related parties defined under Section 2(76) of the Companies Act, 2013.

(i) a director or his relative;

(ii) a key managerial personnel or his relative;

(iii) a firm, in which a director, manager or his relative is a partner;

(iv) a private company in which a director or manager or his relative is a member or director;

(v) a public company in which a director or manager is a director or holds along with his relatives, more than two percent. of its paid-up share capital;

(vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager; vii. any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

2. At a minimum, Key Management Personal (KMPs) shall include following key managerial personnel as per section 2(51) of the Companies Act, 2013.

(i) the Chief Executive Officer or the managing director or the manager

(ii) the company secretary

(iii) the whole-time director

(iv) the Chief Financial Officer

(v) such other officer, not more than one level below the Directors who is in whole-time employment, designated as key managerial personnel by the Board; and

(vi) such other officer as may be prescribed

3. Relatives of KMPs at the minimum, shall include following relatives as defined under section 2(77) of the Companies Act, 2013 and Rule 4 of the Companies (Specification of definitions details) Rules, 2014.

(i) they are members of a Hindu Undivided Family;

(ii) they are husband and wife; or

(iii) one person is related to the other in such manner as may be prescribed;

A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-

(i) Father; Provided that the term “Father” includes step-father.

(ii) Mother: Provided that the term “Mother” includes the step-mother.

(iii) Son: Provided that the term “Son” includes the step-son.

(iv) Son’s wife.

(v) Daughter.

(vi) Daughter’s husband.

(vii) Brother: Provided that the term “Brother” includes the step-brother;

(viii) Sister: Provided that the term “Sister” includes the step-sister.

3. Disclosure of complaints

3.1. Summary information on complaints received by the NBFCs from customers and from the Offices of Ombudsman

Sr. No		Particulars	Current Year	Previous Year
	Complaints received by the NBFC from its customers			
1.		Number of complaints pending at beginning of the year		
2.		Number of complaints received during the year		

3.		Number of complaints disposed during the year		
	3.1	Of which, number of complaints rejected by the NBFC		
4.		Number of complaints pending at the end of the year		
	Maintainable complaints received by the NBFC from Office of Ombudsman			
5.*		Number of maintainable complaints received by the NBFC from Office of Ombudsman		
	5.1.	Of 5, number of complaints resolved in favour of the NBFC by Office of Ombudsman		
	5.2	Of 5, number of complaints resolved through conciliation/mediation/advisories issued by Office of Ombudsman		
	5.3	Of 5, number of complaints resolved after passing of Awards by Office of Ombudsman against the NBFC		
6.*		Number of Awards unimplemented within the stipulated time (other than those appealed)		

Note: Maintainable complaints refer to complaints on the grounds specifically mentioned in 'Reserve Bank - Integrated Ombudsman Scheme, 2021' (Previously 'The Ombudsman Scheme for Non-Banking Financial Companies, 2018') and covered within the ambit of the Scheme.
* It shall only be applicable to NBFCS which are included under 'Reserve Bank - Integrated Ombudsman Scheme, 2021'.

3.2. Top five grounds[52] of complaints received by the NBFCs from customers

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
1	2	3	4	5	6

[52] The list of grounds of complaints given below are indicative only.

1.Credit Cards	2. Difficulty in operation of accounts	3. Mis-selling	4. Recovery Agents/ Direct Sales Agents
5. Loans and advances	6. Levy of charges without prior notice/ excessive charges/ foreclosure charges	7. Non-observance of fair practices code	8. Staff behaviour
9. Facilities for customers visiting the office/ adherence to prescribed working hours, etc.	10. Others		

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
	Current Year				
Ground - 1					
Ground - 2					
Ground - 3					
Ground - 4					
Ground - 5					
Others					
Total					
	Previous Year				
Ground - 1					
Ground - 2					
Ground - 3					
Ground - 4					
Ground - 5					
Others					
Total					

Section II

(Financial statements of NBFC-ML and NBFC-UL)

1. Corporate governance

SEBI [Listing Obligations and Disclosure Requirements(LODR)] Regulations, 2015 (paragraph C of Schedule V - Annual Report) as amended from time to time, specifies disclosures to be made in the section on the corporate governance of the Annual Report. With respect to the corporate governance report, non-listed NBFCs should also endeavor to make full disclosure in accordance with the requirement of SEBI (LODR) Regulations, 2015. Non-listed NBFCs at the minimum should disclose following under the corporate governance section of the annual report.

1.1 Composition of the Board

Sl. No.	Name of Director	Director since	Capacity (i.e. Executive/ Non-Executive/ Chairman/ Promoter nominee/ Independent)	DIN	Number of Board Meetings		No. of other Director ships	Remuneration			No. of shares held in and convertible instruments held in the NBFC
					Held	Attended		Salary and other compensation	Sitting Fee	Commission	

Details of change in composition of the Board during the current and previous financial year.

Sl. No.	Name of Director	Capacity (i.e., Executive/ Non-Executive/ Chairman/ Promoter nominee/ Independent)	Nature of change (resignation, appointment)	Effective date

Where an independent director resigns before expiry of her/his term, the reasons for resignation as given by her/him shall be disclosed.

Details of any relationship amongst the directors inter-se shall be disclosed

1.2 Committees of the Board and their composition

(i) Mention the names of the committees of the Board.

(ii) For each committee, mention the summarized terms of reference and provide the following details.

Sl. No.	Name of Director	Member of Committee since	Capacity (i.e., Executive/ Non-Executive/ Chairman/ Promoter nominee/ Independent)	Number of Meetings of the Committee		No. of shares held in the NBFC
				Held	Attended	
1.			Chairperson			
2.						

1.3 General Body Meetings

Give details of the date, place and special resolutions passed at the General Body Meetings.

Sl. No.	Type of Meeting (Annual/ Extra-Ordinary)	Date and Place	Special resolutions passed

1.4 Details of non-compliance with requirements of Companies Act, 2013

Give details and reasons of any default in compliance with the requirements of Companies Act, 2013, including with respect to compliance with accounting and secretarial standards.

1.5 Details of penalties and strictures

NBFCs should disclose details of penalties or stricture imposed on it by the Reserve Bank or any other statutory authority or regulator.

2. Breach of covenant

NBFCs shall disclose all instances of breach of covenant of loan availed or debt securities issued.

3. Divergence in Asset Classification and Provisioning

NBFCs shall disclose details of divergence as per the table given below, if either or both of the following conditions are satisfied:

(i) The additional provisioning requirements assessed by the Reserve Bank exceeds 5 percent of the reported profits before tax and impairment loss on financial instruments for the reference period,

(ii) The additional Gross NPAs identified by the Reserve Bank exceeds 5 percent of the reported Gross NPAs for the reference period.

Sr.	Particulars	Amount
1.	Gross NPAs as on March 31, 20XX* as reported by the NBFC	
2.	Gross NPAs as on March 31, 20XX as assessed by the Reserve Bank	
3.	Divergence in Gross NPAs (2-1)	
4.	Net NPAs as on March 31, 20XX as reported by the NBFC	
5.	Net NPAs as on March 31, 20XX as assessed by the Reserve Bank	
6.	Divergence in Net NPAs (5-4)	
7.	Provisions for NPAs as on March 31, 20XX as reported by the NBFC	
8.	Provisions for NPAs as on March 31, 20XX as assessed by the Reserve Bank	
9.	Divergence in provisioning (8-7)	
10.	Reported Profit before tax and impairment loss on financial instruments for the year ended March 31, 20XX	
11.	Reported Net Profit after Tax (PAT) for the year ended March 31, 20XX	
12.	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 20XX after considering the divergence in provisioning	

* March 31, 20XX is the close of the reference period in respect of which divergences were assessed.

Section III

(Applicable for annual financial statements of NBFC-UL)

Disclosure for NBFCs-UL

As per the SBR framework issued by the Reserve Bank, NBFC-UL shall be mandatorily listed within three years of identification as NBFC-UL. Accordingly, upon being identified as NBFC-UL, unlisted NBFC-ULs shall draw up a Board approved roadmap for compliance with the disclosure requirements of a listed company under the SEBI (LODR) Regulations, 2015.

Annex VIII

Schedule to the Balance Sheet of an NBFC

(₹ in crore)				
Particulars				
Liabilities side			**Amount outstanding**	**Amount overdue**
(1)	**Loans and advances availed by the NBFC 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**			
	<u>Current Investments</u>			
	1.	<u>Quoted</u>		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	2.	<u>Unquoted</u>		
		(i)	Shares	
			(a) Equity	
			(b) Preference	
		(ii)	Debentures and Bonds	
		(iii)	Units of mutual funds	
		(iv)	Government Securities	
		(v)	Others (please specify)	
	<u>Long Term investments</u>			
	1.	<u>Quoted</u>		
		(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 Standards 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 paragraph 5.1.26 of the 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 IX

Reporting Format for NBFCs Declaring Dividend

Details of dividend declared during the financial year

Name of the NBFC – _____

Accounting period *	Net profit for the accounting period (₹ crore)	Rate of dividend (%)	Amount of dividend (₹ crore)	Dividend Pay Out Ratio (%)

* quarter or half year or year ended ----- as the case may be

Annex X

Data on Pledged Securities

Name of the Lender NBFC					
PAN					
Date of Reporting					
Shareholding Information					
Name of the Company	**ISIN**	**No. of Shares held against loans**	**Type of the Borrower (Promoter/Non Promoter)**	**Name of the Borrower**	**PAN of the Borrower**

Annex XI

Loans to Directors, Senior Officers and Relatives of Directors

		(₹ crore)
	Current Year	**Previous Year**
Directors and their relatives		
Entities associated with directors and their relatives		
Senior Officers and their relatives		

Annex XII

Information about the Proposed Promoters/Directors/Shareholders of the NBFC

Annex-XII(1)

INFORMATION ABOUT THE PROPOSED PROMOTERS/DIRECTORS/SHAREHOLDERS OF THE NBFC

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 under the Income Tax Act, 1961	
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 NBFC	
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 the Reserve Bank	
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 NBFC	
(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: Separate form shall be submitted in respect of each of the proposed promoters/directors/ shareholders.

Annex-XII(2)

INFORMATION ABOUT CORPORATE PROMOTER

Sr. No.	Particulars Required	Response
1.	Name	
2.	Business Address	
3.	E-mail address/Telephone number	
4.	PAN 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 paragraph 5.1.4 of these 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 the Reserve Bank	
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 five 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 the Reserve Bank for CoR which has been rejected ?	
		Signature:
	Date:	Name:
	Place:	Designation:
		Company Seal:

*** For foreign corporate**

Annex XIII

Instructions 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 paragraph 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 concerned NBFC and the Reserve Bank 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 instructions are applicable to material outsourcing arrangements as explained in paragraph 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 instructions are that the regulated entity shall ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and the Reserve Bank nor impede effective supervision by the Reserve Bank. 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 instructions 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 the Reserve Bank. However, such arrangements would be subject to on-site/off-site monitoring and inspection/scrutiny by the Reserve Bank.

(ii) With regard to outsourced services relating to credit cards, detailed instructions of the Reserve Bank contained in 'Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022', dated April 21, 2022, as amended from time to time, 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 paragraph 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 instructions, 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:

(i) the level of importance to the NBFC of the activity being outsourced as well as the significance of the risk posed by the same;

(ii) the potential impact of the outsourcing on the NBFC on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;

(iii) 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;

(iv) the cost of the outsourcing as a proportion of total operating costs of the NBFC;

(v) the aggregate exposure to that particular service provider, in cases where the NBFC outsources various functions to the same service provider and

(vi) 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 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 instructions;

(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 overreliant 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 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;

(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 the Reserve Bank 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 [53]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[54] calling the borrower and/or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans or making false and misleading representations. 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). For microfinance loans, NBFCs shall be guided by the instructions contained in Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, dated March 14, 2022, (as amended from time to time).

[53] Vide circular DOR.ORG.REC.65/21.04.158/2022-23 dated August 12, 2022.
[54] For example- calling repeatedly

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.

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 instructions.

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

5.10.1 NBFCs shall constitute Grievance Redressal Machinery as contained in circular issued by the Reserve Bank on 'Guidelines on Fair Practices Code for NBFCs – Grievance Redressal Mechanism-Nodal Officer' dated February 18, 2013. At the operational level, 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.

5.10.2 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:

(i) are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;

(ii) 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;

(iii) do not compromise the ability to identify and manage risk of the NBFC on a stand-alone basis;

(iv) do not prevent the Reserve Bank from being able to obtain information required for the supervision of the NBFC or pertaining to the group as a whole; and

(v) incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the Reserve Bank 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 paragraph 5 of the instructions.

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 involved 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 offshore outsourcing of financial services relating to Indian operations, NBFCs shall additionally ensure that

(i) Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to the Reserve Bank inspection visits/visits of NBFCs internal and external auditors.

(ii) The availability of records to management and the Reserve Bank will withstand the liquidation of either the offshore custodian or the NBFC in India.

(iii) 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 offshore processing is done in the home country of the NBFC).

(iv) The jurisdiction of the courts in the offshore 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

(v) All original records continue to be maintained in India.

Annex XIV

Guidelines for Credit Default Swaps - NBFCs as users

1. 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 which a protection buyer is seeking to hedge.

(iii) **Deliverable asset/ obligation** – any obligation[55] of the reference entity which shall be delivered, under the terms of the contract, if a credit event occurs. (Assets under this clause will rank at least pari-passu or junior to the underlying obligation).

(iv) **Reference obligation** - the obligation[56] 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

2.1. 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.

2.2. Other than non-payment by a protection buyer of premium in respect of the credit protection contract, it shall be irrevocable.

2.3. 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.

2.4. 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

[55] As per 'Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022' dated February 10, 2022.
[56] As per 'Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022' dated February 10, 2022.

from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

2.5. 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 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 percent 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 percent of the amount of the underlying obligation.

2.6. If the CDS specifies deliverable obligations that are different from the underlying obligation, the resultant asset mismatch shall be governed under paragraph 2.10.

2.7. 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[57] .

2.8. 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.

2.9. 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 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.

[57] 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.

2.10. A mismatch between the underlying obligation and the reference obligation or deliverable obligation is permissible, if (1) the reference obligation or deliverable obligation ranks pari-passu 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.

2.11. 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 pari-passu 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 percent (1/0.15*100 as minimum CRAR requirement for NBFCs is 15 percent) 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 these Directions, risk weights for credit risk for corporate bonds held by NBFCs is 100 percent. 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 paragraph 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:

(i) Operational requirements mentioned in paragraph 2 are satisfied

(ii) There is no maturity mismatch 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 2.10 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 x (t-.25) ÷ (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) ÷ (5-.25)} = 100*(3.75÷ 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 ongoing 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 the Reserve Bank. 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 percent. In order to ensure that consequent upon such a treatment, the NBFC shall not breach the minimum capital requirement prescribed by the Reserve Bank, 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 **Appendix XIV-A** below:

Appendix XIV-A

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 XV

Guidelines on Private Placement of NCDs (maturity more than one 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, instructions contained in 'Master Direction on Money Market Instruments: Call/Notice Money Market, Commercial Paper, Certificates of Deposit and Non-Convertible Debentures (original maturity up to one year)' dated July 07, 2016 (as amended from time to time), issued by Financial Markets Regulation Department of the Reserve Bank, shall be applicable.

Annex XVI

Guidelines for Entry of NBFCs into Insurance

1. NBFCs registered with the Reserve Bank shall undertake insurance agency business on fee basis and without risk participation, without the approval of the Reserve 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 the Reserve Bank 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 percent of the paid-up capital of the insurance company. On a selective basis, the Reserve 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 Reserve Bank may, on a case-to-case basis, consider need based relaxation of the 50 percent group limit as specified. The relaxation, if permitted, shall be subject to compliance by the NBFC with all regulatory conditions as prescribed 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 Department of Supervision of the Reserve 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 percent 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 of public deposits, if held.

The provisions of the RBI Act, 1934 shall be applicable for such investments while computing NOF of the NBFC.

4. In case where a foreign partner contributes 26 percent of the equity with the approval of IRDA/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 the Reserve Bank which are not eligible as joint venture participant, as above can make investments up to 10 percent 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 percent;

(ii) The level of net NPA shall be not more than 5 percent 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 percent 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 XVII

Guidelines on Issue of Co-Branded Credit Cards

1. 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 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 NOF 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 percent;

(iv) NBFC-BL (other than NBFC-MFIs) shall maintain a Leverage Ratio of seven. NBFCs in all other layers and NBFC-MFIs shall have CRAR of 15 percent.

2. In addition, the NBFCs shall be required to adhere to the following stipulations:

2.1 Operational Aspects

(i) 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.

(ii) The co-branded credit card issuing bank shall be solely responsible for fulfilment of KYC requirements in respect of all co-branded cards issued under the tie-up arrangement.

(iii) The risks, if any, involved in co-branded credit cards business shall not get transferred to the business of the NBFC;

(iv) 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;

(v) 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.

(vi) 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.

(vii) Legal risk, if any, arising out of court cases, damages, etc shall be borne by the issuing bank.

2.2 Other Aspects

(i) The NBFC shall have put in place guidelines on Fair Practices Code as required in terms of these Directions;

(ii) The NBFC shall be adhering to Know Your Customer Guidelines and provisions of Prevention of Money Laundering Act, 2002;

(iii) The NBFC shall be complying with other instructions and provisions of the RBI Act, 1934 to the extent applicable to the NBFC concerned;

(iv) The NBFC shall comply with other terms and conditions as the Reserve Bank may specify in this behalf from time to time.

3. Further, the permission is liable to be withdrawn with a notice period of three months in the event of any undesirable/unhealthy operations coming to the notice of the Reserve Bank.

Annex XVIII

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 KYC guidelines and provisions of Prevention of Money Laundering Act, 2002.

2. NBFCs shall comply with other terms and conditions as the Reserve Bank may specify in this regard from time to time.

Annex XIX

Information on secured assets possessed under the SARFAESI Act, 2002

Sl. No	Branch Name	State	Borrower Name	Guarantor Name (wherever applicable)	Registered address of the Borrower	Registered address of the Guarantor (wherever applicable)	Outstanding amount (in ₹)	Asset Classification	Date of Asset classification	Details of security possessed	Name of the Title holder of the security possessed

Annex XX

Terms and Conditions applicable to Perpetual Debt Instruments (PDI) for being Eligible for Inclusion in Tier 1 capital

The Perpetual Debt Instruments (PDI) shall be issued as bonds or debentures by non-deposit taking NBFCs on the following terms and conditions to qualify for inclusion as Tier 1 capital or Tier 2 capital, as the case may be, for capital adequacy purposes.

1. Terms of Issue of PDI

1.1. Currency of issue PDIs shall be issued in Indian Rupees only.

1.2. Amount

The aggregate amount to be raised by issue of such instruments shall be within the overall limits of Tier 1 and Tier 2 as explained in paragraph 1.3 below. It may be raised in tranches. However, the minimum investment by single investor in each such issue/ tranche shall be ₹5 lakh.

1.3. Limits

PDI shall be eligible to be treated as Tier 1 capital upto 15 percent of total Tier 1 capital. The above limit will be based on the amount of Tier 1 capital as on March 31 of previous year after deduction of goodwill and other intangible assets but before the deduction of investments. The amount of PDI in excess of amount admissible as Tier 1 shall qualify as Tier 2 capital subject to provisions contained in these Directions.

1.4. Maturity period

The PDI shall be perpetual.

1.5. Rate of interest

The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

1.6. Options

Non-deposit taking NBFC shall issue PDI as plain vanilla instruments only. However, they may issue PDI with a 'call option' subject to strict compliance with each of the following conditions:

(i) That the instrument has run for a minimum period of ten years from the date of issue; and

(ii) Call option shall be exercised only with the prior approval of the Reserve Bank. While considering the proposals received from such NBFCs for exercising the call option the Reserve Bank would, among other things, take into consideration its CRAR position both at the time of exercise of the call option and after the exercise of the call option.

1.7. Step-up option

The issuing non-deposit taking NBFC may have a step-up option for increasing the rate of interest payable on PDIs. Such option may be exercised only once during the whole life of the instrument after the lapse of ten years from the date of issue. The step-up shall not be more than 100 bps in reference to interest rate advertised in terms of offer document under paragraph 1.5 above. The limits on step-up apply to the all-in cost of the debt to the issuing NBFC.

1.8. Lock-In Clause

1.8.1 PDI shall be subjected to a lock-in clause in terms of which the issuing non-deposit taking NBFC may defer the payment of interest, if

(i) Its CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank; or

(ii) The impact of such payment results in NBFC's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank;

1.8.2 However, non-deposit taking NBFC may pay interest with the prior approval of the Reserve Bank when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm.

1.8.3 The interest shall not be cumulative except in cases as in paragraph 1.8.1.

1.8.4 All instances of invocation of the lock-in clause shall be notified by the issuing NBFC to the Regional Office of Department of Supervision of the Reserve Bank in whose jurisdiction it is registered.

1.9. Seniority of claim

The claims of the investors in PDI shall be

(i) Superior to the claims of investors in equity shares; and

(ii) Subordinated to the claims of all other creditors.

1.10. Discount

The PDI instruments shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

1.11. Other conditions

1.11.1 PDI shall be fully paid-up, unsecured, and free of any restrictive clauses and the issue of PDI and the terms and conditions applicable thereto shall be compliant with the provisions of Companies Act, 2013 and all other laws for the time being in force including the rules, regulations, directions and guidelines issued by the applicable regulatory authorities.

1.11.2 Subject to compliance with extant FEMA Regulations, NBFCs shall obtain prior approval of the Reserve Bank, on a case-by-case basis, for investment by FIIs/NRIs in PDI to be raised by a non-deposit taking NBFC in Indian Rupees.

1.11.3 Non-deposit taking NBFC issuing PDI, shall comply with the terms and conditions, if any, stipulated by SEBI/other regulatory authorities in regard to issue of the instruments.

1.11.4 The investment by other NBFCs in such instruments issued by a non-deposit taking NBFC shall be governed by the provisions of definition of NOF as provided in explanation to section 45-IA of the RBI Act, 1934. As such, investment in excess of 10 percent of the owned fund of NBFC shall be deducted from Owned Fund to arrive at NOF of the NBFC.

2. Reporting Requirements

Non-deposit taking NBFC issuing PDI, shall submit a report to the Regional Office of Department of Supervision of the Reserve Bank under whose jurisdiction it is registered giving details of the debt raised, including the terms of issue specified at paragraph 1 above together with a copy of the offer document soon after the issue is completed.

3. Investment in PDI issued by other NBFCs-ML

A non-deposit taking NBFC investing in PDI issued by other NBFC and financial institutions shall be subject to definition of Net Owned Fund as defined in section 45-IA of the RBI Act, 1934 and will attract risk weight as prescribed by the Reserve Bank.

4. Grant of advances against PDI

Non-deposit taking NBFC issuing PDI, shall not grant advances against the security of the PDI issued by them.

5. Disclosure Requirement

5.1. Non-deposit taking NBFC issuing PDI, shall make suitable disclosures in its Annual Report about:

(i) Amount of funds raised through PDI during the year and outstanding at the close of the financial year;

(ii) Percentage of the amount of PDI of the amount of its Tier 1 capital;

(iii) Mention the financial year in which interest on PDI has not been paid in accordance with paragraph 1.8 above.

5.2. While framing policy as regards PDI, the Board of Directors of the Non-deposit taking NBFC shall ensure that sufficient disclosures are made to the investor which clarify the type of the instrument, the risks associated and its uninsured nature so as to enable the investor to make informed investment decision. The offer document shall contain a clause that the investor may make investment decision on the basis of its own analysis and the Reserve Bank does not accept any responsibility about repayment of such investment. The policy evolved by such NBFC shall also include provision as regards factors to be taken into account by it to demonstrate that it can meet extra load in case the company decides to step up the rate of interest under paragraph 1.7 above. Board of Directors shall ensure strict compliance with all the terms and conditions set forth above.

Annex XXI

Guidelines on Liquidity Coverage Ratio (LCR)

1. Applicability

In addition to the guidelines laid down in Annex VI of these Directions, all non-deposit taking NBFCs with asset size of ₹5,000 crore and above (except Core Investment Companies, Type 1 NBFCs[58], NOFHCs and SPDs) and all deposit taking NBFCs irrespective of the asset size shall adhere to the following guidelines while computing the Liquidity Coverage Ratio.

2. Definitions

2.1 In the Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below

2.1.1 "High Quality Liquid Assets (HQLA)" means liquid assets that can be readily sold or immediately converted into cash at little or no loss of value or used as collateral to obtain funds in a range of stress scenarios.

2.1.2 Liquidity Coverage Ratio (LCR) is represented by the following ratio:

$$\frac{Stock\ of\ High\ Quality\ Liquid\ Assets\ (HQLAs)}{Total\ Net\ Cash\ Outflows\ over\ the\ next\ 30\ calendar\ days}$$

2.1.3 "Unencumbered" means free of legal, regulatory, contractual or other restrictions on the ability of the NBFC to liquidate, sell, transfer, or assign the asset.

2.1.4 All other expressions unless defined herein shall have the same meaning as have been assigned to them under the RBI Act, 1934 or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

3. General Guidelines

3.1 An NBFC shall maintain an adequate level of unencumbered HQLA that can be converted into cash to meet its liquidity needs for a 30 calendar-day time horizon under a significantly severe liquidity stress scenario, as specified in these guidelines.

3.2 LCR shall be maintained as at paragraph 3.3 below on an ongoing basis to help monitor and control liquidity risk.

[58] As per Press Release dated June 17, 2016.

3.3 (i) The LCR requirement shall be binding on all non-deposit taking NBFCs with asset size of ₹10,000 crore and above and all deposit taking NBFCs irrespective of the asset size from December 1, 2020, with the minimum LCR to be 50 percent, progressively increasing, till it reaches the required level of 100 percent, by December 1, 2024, as per the timeline given below:

From	**December 1, 2020**	**December 1, 2021**	**December 1, 2022**	**December 1, 2023**	**December 1, 2024**
Minimum LCR	**50%**	**60%**	**70%**	**85%**	**100%**

(ii) Further, Non-deposit taking NBFCs with asset size of ₹5,000 crore and above but less than ₹10,000 crore shall also maintain the required level of LCR starting December 1, 2020, as per the timeline given below:

From	**December 1, 2020**	**December 1, 2021**	**December 1, 2022**	**December 1, 2023**	**December 1, 2024**
Minimum LCR	**30%**	**50%**	**60%**	**85%**	**100%**

3.4 The LCR shall continue to be minimum 100 percent (i.e., the stock of HQLA shall at least equal total net cash outflows) on an ongoing basis with effect from December 1, 2024, i.e., at the end of the phase-in period.

Provided that NBFCs shall have the option to use their stock of HQLA, thereby allowing LCR to fall below 100 percent during a period of financial stress.

Provided further that NBFCs shall immediately report to the Reserve Bank (Department of Regulation and Department of Supervision) such use of stock of HQLA during a period of financial stress along with reasons for such usage and corrective steps initiated to rectify the situation.

3.5 The stress scenario for LCR intends to cover a combined idiosyncratic and market-wide shock that would result in:

(i) Run-off of a proportion of deposits (in case of deposit taking NBFCs);

(ii) A partial loss of unsecured wholesale funding capacity;

(iii) A partial loss of secured, short-term financing with certain collateral and counterparties;

(iv) Additional contractual outflows that would arise from a downgrade in the NBFC's credit rating, including collateral posting requirements;

(v) Increases in market volatilities that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity needs;

(vi) Unscheduled draws on committed but unused credit and liquidity facilities that the NBFC has provided to its clients; and,

(vii) The potential need for the NBFC to buy back debt or honour non-contractual obligations in the interest of mitigating reputational risk.

4. High Quality Liquid Assets

4.1 Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. They shall be unencumbered. Assets are considered to be *high quality liquid assets* if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered. Nevertheless, there are certain assets that are more likely to generate funds without incurring large discounts due to fire-sales even in times of stress.

4.2 The fundamental characteristics of HQLAs include low credit and market risk; ease and certainty of valuation; low correlation with risky assets and listing on a developed and recognized exchange market. The market related characteristics of HQLAs include active and sizeable market; presence of committed market makers; low market concentration and flight to quality (tendencies to move into these types of assets in a systemic crisis).

4.3 Assets to be included in the computation of HQLAs are those that the NBFC is holding on the first day of the stress period. Such assets shall be valued at an amount no greater than their current market value for the purpose of computing the LCR. Depending upon the nature of assets, they have been assigned different haircuts below, which are to be applied while calculating the HQLA for the purpose of calculation of LCR. The assets and the haircuts are as under:

4.3.1 Assets to be included as HQLA without any haircut

(i) Cash[59]

(ii) Government securities

(iii) Marketable securities issued or guaranteed by foreign sovereigns satisfying all the following conditions:

(a) Assigned a 0 percent risk weight by banks under standardized approach for credit risk;

(b) Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.

(c) Not issued by a bank/financial institution/NBFC or any of its affiliated entities.

4.3.2 Assets to be considered for HQLA with a minimum haircut of 15 percent

(i) Marketable securities representing claims on or claims guaranteed by sovereigns, Public Sector Entities (PSEs) or multilateral development banks that are assigned a 20 percent risk weight by banks under standardised approach for credit risk and provided that they are not issued by a bank/financial institution/NBFC or any of its affiliated entities.

(ii) Corporate bonds, not issued by a bank/financial institution/NBFC or any of its affiliated entities, which have been rated AA- or above by an eligible credit rating agency.

(iii) Commercial Papers not issued by a bank/PD/financial institution or any of its affiliated entities, which have a short-term rating equivalent to the long-term rating of AA- or above by an eligible credit rating agency.

4.3.3 Asset to be considered for HQLA with a minimum haircut of 50 percent

(i) Marketable securities representing claims on or claims guaranteed by sovereigns having risk weights higher than 20 percent but not higher than 50 percent, i.e., they should have a credit rating not lower than BBB- as prescribed for banks in India.

(ii) Common Equity Shares which satisfy all of the following conditions:

(a) Not issued by a bank/ financial institution/NBFC or any of its affiliated entities;

(b) Included in NSE CNX Nifty index and/or S&P BSE Sensex index.

[59] Cash would mean cash on hand and demand deposits with Scheduled Commercial Banks.

(iii) Corporate debt securities (including commercial paper) and the securities having usual fundamental and market related characteristics for HQLAs and meeting the following conditions:

(a) Not issued by a bank, financial institution, PD, NBFC or any of its affiliated entities;

(b) Have a long-term credit rating from an eligible credit rating agency between A+ and BBB- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating;

(c)Traded in large, deep and active repo or cash markets characterised by a low level of concentration; and

(d) Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e. a maximum decline of price not exceeding 20 percent or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.

4.4 For the purpose of computing LCR for deposit taking NBFCs, such unencumbered approved securities held as per the provisions of section 45IB of the RBI Act, 1934, would be reckoned as HQLA only to the extent of 80 percent of the required holding.

4.5 All assets in the stock of liquid assets must be managed as part of that pool by the NBFC and shall be subject to the following operational requirements:

(i) Must be available at all times to be converted into cash;

(ii) Shall be unencumbered;

(iii) Shall not be co-mingled/used as hedges on trading position; designated as collateral or credit enhancement in structured transactions or designated to cover operational costs;

(iv) Shall be managed with sole intent for use as a source of contingent funds; and,

(v) Shall be under the control of specific function/s charged with managing liquidity risk of the bank, e.g. ALCO.

4.6 NBFCs should periodically monetize a proportion of assets through repo or outright sale to test the saleability of these assets and to minimize the risk of negative signalling during period of stress. NBFCs are also expected to maintain liquid assets consistent with distribution of their liquidity needs by currency.

4.7 If an eligible liquid asset becomes ineligible (e.g. due to downgrade), NBFCs will be allowed to keep the asset in their stock of liquid assets for an additional 30 calendar days in order to have sufficient time to adjust the stock/replace the asset.

5. Total net cash outflows

5.1 Total net cash outflows is defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days. Considering the unique nature of the balance sheet of the NBFCs, stressed cash flows is computed by assigning a predefined stress percentage to the overall cash inflows and cash outflows. Total expected cash outflows (stressed outflows) are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by 115 percent (15 percent being the rate at which they are expected to run off further or be drawn down). Total expected cash inflows (stressed inflows) are calculated by multiplying the outstanding balances of various categories of contractual receivables by 75 percent (25 percent being the rate at which they are expected to under-flow). However, total cash inflows will be subjected to an aggregate cap of 75 percent of total expected cash outflows. In other words, total net cash outflows over the next 30 days = Stressed Outflows - Min (stressed inflows; 75 percent of stressed outflows).

Items of Cash Inflows	**Items of Cash Outflows**
a. Maturing secured lending transactions backed by HQLA b. Margin Lending backed by all other collateral c. All other assets d. Lines of credit – Credit or liquidity facilities or other contingent funding facilities that the NBFC holds at other institutions for its own purpose e. Other inflows by counterparty f. Net derivatives cash inflows	a. Deposits b. Unsecured wholesale Funding c. Secured Funding d. Additional requirements [(i)+(ii)+(iii)+(iv)+(v) +(vi)+(vii)+(viii)]: (i) Net derivative cash outflows (ii) Liquidity needs (e.g. collateral calls) related to financing transactions, derivatives and other contracts where 'downgrade triggers' up to and including a 3-notch downgrade

Items of Cash Inflows	Items of Cash Outflows
g. Other contractual cash inflows (please specify as footnotes)	(iii) Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months) based on look back approach (iv) Increased liquidity needs related to the potential for valuation changes in collateral securing derivatives (v) Increased liquidity needs related to excess non-segregated collateral held that could contractually be called at any time by the counterparty (vi) Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted (vii) Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets (viii) Currently undrawn committed credit and liquidity facilities e. Other contingent funding liabilities f. Any other contractual outflows not captured elsewhere in the template

Computation of Net cash outflows

S No.	Net Cash outflows over the 30 days period	Amount
A	**Total Cash Outflows**	
B	**Stressed Cash Outflows (A*115%)**	

C	**Total Cash Inflows**	
D	**Stressed Cash Inflows (C*75%)**	
E	**Total net cash outflows over the next 30 days = Stressed Outflows (B) - Minimum of (Stressed Inflows (D); 75% of Stressed Outflows(B)).**	

5.2 NBFCs will not be permitted to double count items, i.e., if an asset is included as part of the "stock of HQLA" (i.e., the numerator), the associated cash inflows cannot also be counted as cash inflows (i.e., part of the denominator). Where there is potential that an item could be counted in multiple outflow categories (e.g., committed liquidity facilities granted to cover debt maturing within the 30 calendar day period), an NBFC only has to assume up to the maximum contractual outflow for that product.

6. LCR Disclosure Standards

6.1 NBFCs are required to disclose information on their LCR every quarter. Further, NBFCs in their annual financial statements under Notes to Accounts, starting with the financial year ending March 31, 2021, shall disclose information on LCR for all the four quarters of the relevant financial year. The disclosure format is given in the Appendix XXI-A.

6.2 Data must be presented as simple averages of monthly observations over the previous quarter (i.e., the average is calculated over a period of 90 days). However, with effect from the financial year ending March 31, 2022, the simple average shall be calculated on daily observations.

6.3 In addition to the disclosures required by the format given in Appendix XXI-A, NBFCs should provide sufficient qualitative discussion (in their annual financial statements under Notes to Accounts) around the LCR to facilitate understanding of the results and data provided. For example, where significant to the LCR, NBFCs could discuss: (a) the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time; (b) intra-period changes as well as changes over time; (c) the composition of HQLAs; (d) concentration of funding sources; (e) derivative exposures and potential collateral calls; (f) currency mismatch in the LCR; (g)

other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile.

			Appendix XXI-A
LCR Disclosure Template			
(₹ in Crore)		**Total Unweighted[60] Value (average)**	**Total Weighted[61] Value (average)**
High Quality Liquid Assets			
1	**Total High Quality Liquid Assets (HQLA)		
Cash Outflows			
2	Deposits (for deposit taking companies)		
3	Unsecured wholesale funding		
4	Secured wholesale funding		
5	Additional requirements, of which		
(i)	*Outflows related to derivative exposures and other collateral requirements*		
(ii)	*Outflows related to loss of funding on debt products*		
(iii)	*Credit and liquidity facilities*		
6	Other contractual funding obligations		
7	Other contingent funding obligations		
8	**TOTAL CASH OUTFLOWS**		
Cash Inflows			
9	Secured lending		
10	Inflows from fully performing exposures		
11	Other cash inflows		
12	**TOTAL CASH INFLOWS**		
			Total Adjusted Value
13	**TOTAL HQLA**		
14	**TOTAL NET CASH OUTFLOWS**		
15	**LIQUIDITY COVERAGE RATIO (%)**		

**Components of HQLA need to be disclosed

[60] Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).
[61] Weighted values must be calculated after the application of respective haircuts (for HQLA) and stress factors on inflow and outflow.

Annex XXII

Indicative List of Balance Sheet Disclosure for NBFCs in Middle Layer and above

1. Minimum Disclosures

At a minimum, the items listed in **Annex XXII** shall be disclosed in the Notes to Accounts (NTA) by NBFCs. The disclosures listed are intended only to supplement, and not to replace, other disclosure requirements as applicable.

2. Summary of Significant Accounting Policies

NBFCs shall disclose the accounting policies regarding key areas of operations at one place along with NTA in their financial statements. A suggestive list includes – Basis of Accounting, Transactions involving Foreign Exchange, Investments - Classification, Valuation, etc., Advances and Provisions thereon, Fixed Assets and Depreciation, Revenue Recognition, Employee Benefits, Provision for Taxation, Net Profit, etc.

3.1 Capital

[Amount in ₹ crore]

Particulars	Current Year	Previous Year
(i) CRAR (%)		
(ii) CRAR – Tier 1 capital (%)		
(iii) CRAR – Tier 2 capital (%)		
(iv) Amount of subordinated debt raised as Tier- 2 capital		
(v) Amount raised by issue of Perpetual Debt Instruments		

3.2 Investments

[Amount in ₹ crore]

Particulars	Current Year	Previous Year
3.2.1. Value of Investments		
(i) Gross Value of Investments		
(a) In India		
(b) Outside India		
(ii) Provisions for Depreciation		
(a) In India		
(b) Outside India		
(iii) Net Value of Investments		
(a) In India		
(b) Outside India		
3.2.2. Movement of provisions held towards depreciation on investments		
(i) Opening balance		

(ii) Add: Provisions made during the year		
(iii) Less: Write-off/write-back of excess provisions during the year		
(iv) Closing balance		

3.3 Derivatives

3.3.1 Forward Rate Agreement/Interest Rate Swap

[Amount in ₹ crore]]

Particulars	**Current Year**	**Previous Year**
(i) The notional principal of swap agreements		
(ii) Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements		
(iii) Collateral required by the NBFC upon entering into swaps		
(iv) Concentration of credit risk arising from the swaps [$]		
(v) The fair value of the swap book [@]		
Note: Nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the swaps should also be disclosed.		
[$] Examples of concentration could be exposures to particular industries or swaps with highly geared companies.		
[@] If the swaps are linked to specific assets, liabilities, or commitments, the fair value would be the estimated amount that the NBFC would receive or pay to terminate the swap agreements as on the balance sheet date		

3.3.2 Exchange Traded Interest Rate (IR) Derivative

[Amount in ₹ crore]]

Particulars	Amount
(i) Notional principal amount of exchange traded IR derivatives undertaken during the year (instrument wise)	
(a)	
(b)	
(c)	
(ii) Notional principal amount of exchange traded IR derivatives outstanding as on 31st March …. (instrument wise)	
(a)	
(b)	
(c)	
(iii) Notional principal amount of exchange traded IR derivatives outstanding and not “highly effective” (instrument wise)	
(a)	
(b)	
(c)	
(iv) Mark-to-market value of exchange traded IR derivatives outstanding and not “highly effective” (instrument wise)	
(a)	
(b)	
(c)	

3.3.3 Disclosures on Risk Exposure in Derivatives

Qualitative Disclosures

NBFCs shall describe their risk management policies pertaining to derivatives with particular reference to the extent to which derivatives are used, the associated risks and business purposes served. The discussion shall also include:

(i) The structure and organization for management of risk in derivatives trading,

(ii) The scope and nature of risk measurement, risk reporting and risk monitoring systems,

(iii) Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants, and

(iv) Accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

Quantitative Disclosures

[Amount in ₹ crore]]

Sl.No.	Particulars	Currency Derivatives	Interest Rate Derivatives
(i)	Derivatives (Notional Principal Amount)		
	For Hedging		
(ii)	Marked to Market Positions		
	(a) Assets (+)		
	(b) Liability (-)		
(iii)	Credit Exposure		
(iv)	Unhedged Exposures		

3.4 Assets Liability Management (Maturity pattern of certain items of Assets and Liabilities)

Particulars	1 day to 7 days	8 to 14 days	15 days to 30/31 days	Over one month upto 2 months	Over 2 months upto 3 months	Over 3 months & up to 6 months	Over 6 months & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits											
Advances											
Investments											
Borrowings											

Foreign Currency Assets											
Foreign Currency Liabilities											

3.5 Exposure

3.5.1 Exposure to Real Estate Sector

[Amount in ₹ crore]]

Category				**Current Year**	**Previous Year**
a)	**Direct Exposure**				
	(i)	**Residential Mortgages -**			
		Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented			
	(ii)	**Commercial Real Estate -**			
		Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure shall also include non-fund based limits			
	(iii)	**Investments in Mortgage Backed Securities (MBS) and other securitised exposures -**			
		a.	Residential		
		b.	Commercial Real Estate		
Total Exposure to Real Estate Sector					

3.5.2 Exposure to Capital Market

[Amount in ₹ crore]

Particulars		**Current Year**	**Previous Year**
(i)	Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt		
(ii)	Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds		
(iii)	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security		
(iv)	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds 'does not fully cover the advances		

(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers		
(vi)	Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources		
(vii)	Bridge loans to companies against expected equity flows / issues		
(viii)	All exposures to Venture Capital Funds (both registered and unregistered)		
Total Exposure to Capital Market			

3.5.3 Details of financing of parent company products

3.5.4 Details of Single Borrower Limit (SGL)/Group Borrower Limit (GBL) exceeded by the NBFC

The NBFC shall make appropriate disclosure in the NTA to the annual financial statements in respect of the exposures where it had exceeded the prudential exposure limits during the year. The sanctioned limit or entire outstanding, whichever is high, shall be reckoned for exposure limit.

3.5.5 Unsecured Advances

(i) For determining the amount of unsecured advances, the rights, licenses, authorisations, etc., charged to the NBFCs as collateral in respect of projects (including infrastructure projects) financed by them, shall not be reckoned as tangible security. Hence, such advances shall be reckoned as unsecured.

(ii) NBFCs shall also disclose the total amount of advances for which intangible securities such as charge over the rights, licenses, authority, etc. has been taken as also the estimated value of such intangible collateral. The disclosure shall be made under a separate head in NTA. This would differentiate such loans from other entirely unsecured loans.

4. Miscellaneous

4.1. Registration obtained from other financial sector regulators

4.2. Disclosure of Penalties imposed by the Reserve Bank and other regulators

Consistent with the international best practices, in disclosure of penalties imposed by the regulators, placing the details of the levy of penalty on the NBFC in public domain will be in the interests of the investors and depositors. Further, strictures or directions on the

basis of inspection reports or other adverse findings shall also be disclosed in the public domain. The penalties shall also be disclosed in the NTA.

4.3. Related Party Transactions

4.3.1. Details of all material transactions with related parties shall be disclosed in the Annual Report.

4.3.2. The NBFC shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report.

4.4. Ratings assigned by Credit Rating Agencies and migration of ratings during the year

4.5. Remuneration of Directors

All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.

4.6. Management

As part of the Directors' report or as an addition thereto, a Management Discussion and Analysis report shall form part of the Annual Report to the shareholders. This Management Discussion & Analysis shall include discussion on the following matters within the limits set by the company's competitive position:

(i) Industry structure and developments.
(ii) Opportunities and Threats.
(iii) Segment–wise or product-wise performance.
(iv) Outlook.
(v) Risks and concerns.
(vi) Internal control systems and their adequacy.
(vii) Discussion on financial performance with respect to operational performance.
(viii) Material developments in Human Resources/Industrial Relations front, including number of people employed.

4.7. Net Profit or Loss for the period, prior period items and changes in accounting policies

Since the format of the Profit and Loss account of NBFCs does not specifically provide for disclosure of the impact of prior period items on the current year's profit and loss, such disclosures, wherever warranted, shall be made in the NTA.

4.8. Revenue Recognition

NBFC shall also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

4.9. Consolidated Financial Statements (CFS)

NBFCs may be guided by general clarifications issued by ICAI from time to time. A parent company, presenting the CFS, shall consolidate the financial statements of all subsidiaries - domestic as well as foreign. The reasons for not consolidating a subsidiary shall be disclosed in the CFS. The responsibility of determining whether a particular entity shall be included or not for consolidation would be that of the Management of the parent entity. In case, its Statutory Auditors are of the opinion that an entity which ought to have been consolidated has been omitted, they shall incorporate their comments in this regard in the "Auditors Report".

5. Additional Disclosures

5.1. Provisions and Contingencies

To facilitate easy reading of the financial statements and to make the information on all Provisions and Contingencies available at one place, NBFCs are required to disclose in the NTA the following information:

[Amount in ₹ crore]

Break up of 'Provisions and Contingencies' shown under the head Expenditure in Profit and Loss Account	**Current Year**	**Previous Year**
Provisions for depreciation on Investment		
Provision towards NPA		
Provision made towards Income tax		
Other Provision and Contingencies (with details)		
Provision for Standard Assets		

5.2. Draw Down from Reserves

Suitable disclosures are to be made regarding any draw down of reserves in the NTA.

5.3. Concentration of Deposits, Advances, Exposures and NPAs

5.3.1. Concentration of Deposits (for deposit taking NBFCs)

[Amount in ₹ crore]

Particulars	
Total deposits of twenty largest depositors	
Percentage of Deposits of twenty largest depositors to Total Deposits of the deposit taking NBFC	

5.3.2. Concentration of Advances

[Amount in ₹ crore]

Particulars	
Total Advances to twenty largest borrowers	
Percentage of Advances to twenty largest borrowers to Total Advances of the NBFC	

5.3.3. Concentration of Exposures

[Amount in ₹ crore]

Particulars	
Total Exposure to twenty largest borrowers/customers	
Percentage of Exposures to twenty largest borrowers/customers to Total Exposure of the NBFC on borrowers/customers	

5.3.4. Concentration of NPAs

[Amount in ₹ crore]

Particulars	
Total Exposure to top four NPA accounts	

5.3.5. Sector-wise NPAs

Sr. No.	**Sector**	**Percentage of NPAs to Total Advances in that sector**
1.	Agriculture and allied activities	
2.	MSME	
3.	Corporate borrowers	
4.	Services	
5.	Unsecured personal loans	
6.	Auto loans	
7.	Other personal loans	

5.4. Movement of NPAs

[Amount in ₹ crore]

Particulars			**Current Year**	**Previous Year**
(i)	Net NPAs to Net Advances (%)			
(ii)	Movement of NPAs (Gross)			
	(a)	Opening balance		

	(b)	Additions during the year		
	(c)	Reductions during the year		
	(d)	Closing balance		
(iii)	Movement of Net NPAs			
	(a)	Opening balance		
	(b)	Additions during the year		
	(c)	Reductions during the year		
	(d)	Closing balance		
(iv)	Movement of provisions for NPAs (excluding provisions on standard assets)			
	(a)	Opening balance		
	(b)	Provisions made during the year		
	(c)	Write-off/write-back of excess provisions		
	(d)	Closing balance		

5.5. Overseas Assets (for those with Joint Ventures and Subsidiaries abroad)

Name of the Joint Venture/ Subsidiary	Other Partner in the JV	Country	Total Assets

5.6. Off-balance Sheet SPVs sponsored

(which are required to be consolidated as per accounting norms)

Name of the SPV sponsored	
Domestic	**Overseas**

6. Disclosure of Customer Complaints

(a)	No. of complaints pending at the beginning of the year	
(b)	No. of complaints received during the year	
(c)	No. of complaints redressed during the year	
(d)	No. of complaints pending at the end of the year	

Annex XXIII

'Fit and Proper' Criteria for Directors of NBFCs

The importance of due diligence of Directors to ascertain suitability for the post by way of qualifications, technical expertise, track record, integrity, etc. needs no emphasis for any financial institution. While the Reserve Bank carries out due diligence on Directors before issuing CoR to an NBFC, it is necessary that NBFCs put in place an internal supervisory process on a continuing basis. Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing Directors, NBFCs shall ensure that the procedures mentioned below are followed and minimum criteria are fulfilled by the persons before they are appointed on the Boards:

(i) NBFCs shall undertake a process of due diligence to determine the suitability of the person for appointment/continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. NBFCs shall obtain necessary information and declaration from the proposed / existing directors for the purpose in the format given at Appendix XXIII-A.

(ii) The process of due diligence shall be undertaken by the NBFCs at the time of appointment/ renewal of appointment.

(iii) The Boards of the NBFCs shall constitute Nomination and Remuneration Committees[62] to scrutinize the declarations.

(iv) Based on the information provided in the signed declaration, Nomination and Remuneration Committees [63] shall decide on the acceptance or otherwise of the Directors, where considered necessary.

(v) NBFCs shall obtain annually as on 31st March a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.

(vi) The Board of the NBFC must ensure in public interest that the nominated/elected Directors execute the Deeds of Covenants in the format given in Appendix XXIII-B.

[62] Nomination Committees for Government NBFCs.
[63] Nomination Committees for Government NBFCs.

Appendix XXIII-A

Declaration and Undertaking by Director

Name of the NBFC: _____

Declaration and Undertaking by Director (with enclosures as appropriate as on _____)	
I. Personal details of Director	
a. Full Name	
b. Date of Birth	
c. Educational Qualifications	
d. Relevant Background and Experience	
e. Permanent Address	
f. Present Address	
g. E-mail Address/Telephone Number	
h. Permanent Account Number under the Income Tax Act,1961 and name and address of Income Tax Circle	
i. Relevant knowledge and experience	
j. Any other information relevant to the Directorship of the NBFC	
II. Relevant Relationships of Director	
a. List of relatives, if any, who are connected with the NBFC (Refer section 6 and Schedule 1A of the Companies Act, 1956 and corresponding provisions of Companies Act, 2013)	
b. List of entities, if any, in which he/she is considered as being interested (Refer section 299(3)(a) and section 300 of the Companies Act, 1956 and corresponding provisions of Companies Act, 2013)	
c. List of entities in which he/she is considered as holding substantial interest within the meaning of paragraph 5.1.33 of these Directions	
d. Name of NBFC in which he/she is or has been a member of the board (giving details of period during which such office was held)	
e. Fund and non-fund facilities, if any, presently availed of by him/her and/or by entities listed in **II** (b) and (c) above from the NBFC	
f. Cases, if any, where the director or entities listed in **II** (b) and (c) above are in default or	

have been in default in the past in respect of credit facilities obtained from the NBFC or any other NBFC/bank	
III. Records of professional achievements	
a. Relevant professional achievements	
IV. Proceedings, if any, against the Director	
a. If the director 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 into any profession/occupation at any time	
b. Details of prosecution, if any, pending or commenced or resulting in conviction in the past against the director and/or against any of the entities listed in **II** (b) and (c) above for violation of economic laws and regulations	
c. Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director	
d. Whether the director attracts any of the disqualifications envisaged under section 274 of the Companies Act 1956 and corresponding provisions of Companies Act, 2013?	
e. Has the director or any of the entities at **II** (b) and (c) above been subject to any investigation at the instance of Government department or agency?	
f. Has the director at any time been found guilty of violation of rules/regulations/ legislative requirements by customs/excise/ income tax/ foreign exchange/other revenue authorities? If so, give particulars	
g. Whether the director has at any time come to the adverse notice of a regulator such as SEBI, IRDA, MCA.	
(Though it shall not be necessary for a candidate to mention in the column about orders and findings made by the regulators which have been later on reversed/set aside in to, it would be necessary to make a mention of the same, in case the reversal/setting aside is on technical reasons like limitation or lack of jurisdiction, etc., **and not on merit. If the**	

order of the regulator is temporarily stayed and the appellate/court proceedings are pending, the same also should be mentioned.)	
V. Any other explanation/information in regard to items I to III and other information considered relevant for judging 'fit and proper'	
Undertaking	
I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the NBFC fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided above.	
I also undertake to execute the Deed of Covenant required to be executed by all the directors of the NBFC.	
Place:	Signature:
Date:	
VI. Remarks of Chairman of Nomination and Remuneration Committee[64] / Board of Directors of NBFC	
Place:	Signature:
Date:	

[64] Nomination Committee for Government NBFCs.

Appendix XXIII-B

Form of Deed of Covenants with a Director of an NBFC

THIS DEED OF COVENANTS is made on this ……. day of …….. Two Thousand……..**BETWEEN** …… having its registered office at …….. (hereinafter called the "NBFC") of the one part and Mr./Ms. …… of …… (hereinafter called the "Director") of the other part.

WHEREAS

A. The director has been appointed as a director on the Board of Directors of the NBFC (hereinafter called "the Board") and is required as a term of his/her appointment to enter into a Deed of Covenants with the NBFC.

B. The director has agreed to enter into this Deed of Covenants, which has been approved by the Board, pursuant to his said terms of appointment.

NOW IT IS HEREBY AGREED AND THIS DEED OF COVENANTS WITNESSETH AS FOLLOWS:

1. The director acknowledges that his/her appointment as director on the Board of the NBFC is subject to applicable laws and regulations including the Memorandum and Articles of Association of the NBFC and the provisions of this Deed of Covenants.

2. The director covenants with the NBFC that:

(i) The director shall disclose to the Board the nature of his/her interest, direct or indirect, if he/she has any interest in or is concerned with a contract or arrangement or any proposed contract or arrangement entered into or to be entered into between the NBFC and any other person, immediately upon becoming aware of the same or at meeting of the Board at which the question of entering into such contract or arrangement is taken into consideration or if the director was not at the date of that meeting concerned or interested in such proposed contract or arrangement, then at the first meeting of the Board held after he/she becomes so concerned or interested and in case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the director becomes concerned or interested in the contract or arrangement.

(ii) The director shall disclose by general notice to the Board his/her other directorships, his/her memberships of bodies corporate, his/her interest in other entities and his/her interest as a partner or proprietor of firms and shall keep the Board apprised of all changes therein.

(iii) The director shall provide to the NBFC a list of his/her relatives as defined in the Companies Act, 1956 or 2013 and to the extent the director is aware of directorships and interests of such relatives in other bodies corporate, firms and other entities.

(iv) The director shall in carrying on his/her duties as director of the NBFC:

(a) use such degree of skill as may be reasonable to expect from a person with his/her knowledge or experience;

(b) in the performance of his/her duties take such care as he/she might be reasonably expected to take on his/her own behalf and exercise any power vested in him/her in good faith and in the interests of the NBFC;

(c) shall keep himself/herself informed about the business, activities and financial status of the NBFC to the extent disclosed to him/her;

(d) attend meetings of the Board and Committees thereof (collectively for the sake of brevity hereinafter referred to as "Board") with fair regularity and conscientiously fulfil his/her obligations as director of the NBFC;

(e) shall not seek to influence any decision of the Board for any consideration other than in the interests of the NBFC;

(f) shall bring independent judgment to bear on all matters affecting the NBFC brought before the Board including but not limited to statutory compliances, performance reviews, compliances with internal control systems and procedures, key executive appointments and standards of conduct;

(g) shall in exercise of his/her judgement in matters brought before the Board or entrusted to him/her by the Board be free from any business or other relationship which could materially interfere with the exercise of his/her independent judgement; and

(h) shall express his/her views and opinions at Board meetings without any fear or favour and without any influence on exercise of his/her independent judgement;

(v) The director shall have:

(a) fiduciary duty to act in good faith and in the interests of the NBFC and not for any collateral purpose;

(b) duty to act only within the powers as laid down by the NBFC's Memorandum and Articles of Association and by applicable laws and regulations; and

(c) duty to acquire proper understanding of the business of the NBFC.

(vi) The director shall:

(a) not evade responsibility in regard to matters entrusted to him/her by the Board;

(b) not interfere in the performance of their duties by the whole-time directors and other officers of the NBFC and wherever the director has reasons to believe otherwise, he/ she shall forthwith disclose his/her concerns to the Board; and

(c) not make improper use of information disclosed to him/her as a member of the Board for his/her or someone else's advantage or benefit and shall use the information disclosed to him/her by the NBFC in his/her capacity as director of the NBFC only for the purposes of performance of his/her duties as a director and not for any other purpose.

3. The NBFC covenants with the director that:

(i) the NBFC shall apprise the director about:

(a) Board procedures including identification of legal and other duties of Director and required compliances with statutory obligations;

(b) control systems and procedures;

(c) voting rights at Board meetings including matters in which Director should not participate because of his/her interest, direct or indirect therein;

(d) qualification requirements and provide copies of Memorandum and Articles of Association;

(e) corporate policies and procedures;

(f) insider dealing restrictions;

(g) constitution of, delegation of authority to and terms of reference of various committees constituted by the Board;

(h) appointments of Senior Executives and their authority;

(i) remuneration policy;

(j) deliberations of committees of the Board, and

(k) communicate any changes in policies, procedures, control systems, applicable regulations including Memorandum and Articles of Association of the NBFC, delegation of authority, Senior Executives, etc. and appoint the compliance officer who shall be responsible for all statutory and legal compliance.

(ii) the NBFC shall disclose and provide to the Board including the director all information which is reasonably required for them to carry out their functions and duties as a director of the NBFC and to take informed decisions in respect of matters brought before the Board for its consideration or entrusted to the director by the Board or any committee thereof;

(iii) the disclosures to be made by the NBFC to the directors shall include but not be limited to the following:

(a) all relevant information for taking informed decisions in respect of matters brought before the Board;

(b) NBFC's strategic and business plans and forecasts;

(c) organisational structure of the NBFC and delegation of authority;

(d) corporate and management controls and systems including procedures;

(e) economic features and marketing environment;

(f) information and updates as appropriate on NBFC's products;

(g) information and updates on major expenditure;

(h) periodic reviews of performance of the NBFC; and

(i) report periodically about implementation of strategic initiatives and plans.

(iv) the NBFC shall communicate outcome of Board deliberations to directors and concerned personnel and prepare and circulate minutes of the meeting of Board to directors in a timely manner and to the extent possible within two business days of the date of conclusion of the Board meeting; and

(v) advise the director about the levels of authority delegated in matters placed before the Board.

4. The NBFC shall provide to the director periodic reports on the functioning of internal control system including effectiveness thereof.

5. The NBFC shall appoint a compliance officer who shall be a senior executive reporting to the Board and be responsible for setting forth policies and procedures and shall monitor

adherence to the applicable laws and regulations and policies and procedures including but not limited to directions of the Reserve Bank and other concerned statutory and Governmental authorities.

6. The director shall not assign, transfer, sublet or encumber his/her office and his/her rights and obligations as director of the NBFC to any third party provided that nothing herein contained shall be construed to prohibit delegation of any authority, power, function or delegation by the Board or any committee thereof subject to applicable laws and regulations including Memorandum and Articles of Association of the NBFC.

7. The failure on the part of either party hereto to perform, discharge, observe or comply with any obligation or duty shall not be deemed to be a waiver thereof nor shall it operate as a bar to the performance, observance, discharge or compliance thereof at any time or times thereafter.

8. Any and all amendments and/or supplements and/or alterations to this Deed of Covenants shall be valid and effectual, only if in writing and signed by the director and the duly authorised representative of the NBFC.

9. This Deed of Covenants has been executed in duplicate and both the copies shall be deemed to be originals.

IN WITNESS WHEREOF THE PARTIES HAVE DULY EXECUTED THIS AGREEMENT ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN.

For the NBFC	Director	
By ……..		
Name:	Name:	
Title:		
In the presence of:		
1.		2. …….

Annex XXIV

Guidelines on Compensation of Key Managerial Personnel and Senior Management in NBFCs: Minimum Scope and coverage

1. Nomination and Remuneration Committee (NRC)

The Boards of NBFCs shall constitute a Nomination and Remuneration Committee (NRC). The NRC shall have the constitution, powers, functions and duties as laid down in section 178 of the Companies Act, 2013. The NRC, *inter alia,* shall also have the mandate to oversee the framing, review and implementation of compensation policy of the company which should have the approval of the board. The NRC may work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks. Further, the NRC may ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on ICAAP. NRC may also ensure 'fit and proper' status of proposed/existing directors and that there is no conflict of interest in appointment of directors on Board of the company, KMPs and senior management.

2. Principles for compensation

2.1 Components and risk alignment: The compensation of Key Managerial Personnel (KMPs) and senior management needs to be reasonable, recognising all relevant factors including adherence to statutory requirements and industry practices. The compensation packages may comprise of fixed and variable pay components aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks, the compensation outcomes are symmetric with risk outcomes, compensation pay-outs are sensitive to the time horizon of the risks, and the mix of cash, equity and other forms of compensation are consistent with risk alignment.

2.2 Composition of Fixed Pay: All the fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, may be treated as part of fixed pay. All perquisites that are reimbursable may also be included in the fixed

pay so long as there are monetary ceilings on these reimbursements. Monetary equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.) may also be part of fixed pay.

2.3 Principles for Variable Pay

2.3.1 Composition of Variable Pay: The variable pay may be in the form of share-linked instruments, or a mix of cash and share-linked instruments. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.

2.3.2 Proportion: The proportion of variable pay in total compensation[65] needs to be commensurate with the role and prudent risk taking profile of KMPs/senior management. At higher levels of responsibility, the proportion of variable pay needs to be higher. There should be proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments. The variable pay should be truly and effectively variable and can be reduced to zero based on performance at an individual, business-unit and company-wide level. In order to do so, performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

2.3.3 Deferral of variable pay: Not all the variable pay awarded after performance assessment may be paid immediately. Certain portion of variable pay, as decided by the Board of the company, may be deferred to time horizon of the risks. The portion of deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Deferral period for such an arrangement may be decided by the Board of the company.

2.3.4 Control and assurance function personnel: KMPs and senior management engaged in financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and

[65] Total compensation includes fixed and variable pay

commensurate with their key role in the company. Accordingly, such personnel may have higher proportion of fixed compensation. However, a reasonable proportion of compensation may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.

3. Guaranteed bonus

Guaranteed bonus may not be paid to KMPs and senior management. However, in the context of new hiring joining/sign-on bonus could be considered. Such bonus will neither be considered part of fixed pay nor of variable pay.

4. Malus/Clawback

The deferred compensation may be subject to malus[66]/clawback[67] arrangements in the event of subdued or negative financial performance of the company and/or the relevant line of business or employee misconduct in any year. A representative set of situations may be identified by the NBFC, which require them to invoke the malus and clawback clauses that may be applicable on entire variable pay. While setting criteria for the application of malus and clawback, NBFCs may also specify a period during which malus and/or clawback can be applied, covering at least the deferral and retention periods[68].

[66] A malus arrangement permits the NBFC to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.
[67] A clawback is a contractual agreement between the employee and the NBFC in which the employee agrees to return previously paid or vested remuneration to the NBFC under certain circumstances.
[68] Retention period: A period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.

Annex XXV

Return on Large Exposures

Name of the NBFC	
Return for the Month	
Eligible Capital base (Tier 1)	**(₹ crore)**

A. NBFC's 10 Largest Exposures to counterparties (single as well as group of connected counterparties) irrespective of their values relative to NBFC's eligible capital base

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier 1 capital
1.				
2.				
3.				
--				
--				
10.				

B. NBFC's Large Exposures with values equal to or above 10% of Tier 1 capital

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier 1 capital
1.				
2.				

--				
n				

C. NBFC's other exposures (measured without offsetting credit transfer instruments) with values equal to or above 10% of Tier 1 capital (not including exposures reported in B already)

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier 1 capital
1.				
2.				
--				
n.				

D. NBFC's exempted exposures with values equal to or above 10% of Tier 1 capital

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier 1 capital
1.				
2.				
--				
n.				

Annex XXVI

Self–Regulatory Organization (SRO) for NBFC-MFIs – Criteria for Recognition

1. The SRO shall have at least 1/3rd of the NBFC-MFIs registered as its members, at the time of recognition.
2. It shall have adequate capital to be able to discharge its functions without being overly dependent on subscription from members.
3. The memorandum/bye laws of the SRO shall specify criteria for admission of members and the functions it shall discharge, as one of its main objects.
4. 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.
5. The Board shall have adequate representation from both large and small NBFC-MFIs.
6. 1/3rd of the Board of Directors shall be independent and not associated with member institutions.
7. The Board of Directors and individuals comprising the management shall be considered 'Fit and Proper', by the Reserve Bank.
8. It shall have adequate internal controls in place.
9. The SRO shall function in the interest of all the stakeholders and not seen to be only an industry body.
10. The SRO shall frame a Code of Conduct to be followed by its members.
11. It shall have a Grievance Redressal Mechanism and a Dispute Resolution Mechanism in place, including a specially appointed Grievance Redressal Nodal Officer.
12. 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 Reserve Bank through an Enforcement Committee.
13. 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

1. 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.
2. The SRO shall have to submit its Annual Report to the Reserve Bank.
3. It shall have to conduct investigation into areas of concern as pointed out by the Reserve Bank.
4. 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.
5. It shall provide information, including data, to the Reserve Bank periodically or as requested for by the Reserve Bank.
6. The Reserve Bank shall, if need arises, inspect the books of the SRO or arrange to have the books inspected by an audit firm.