

**RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING REGULATION
CENTRAL OFFICE, CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA MUMBAI - 400 005.**

RBI/DNBR/2016-17/44

Master Direction DNBR.PD.007/03.10.119/2016-17

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

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

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Section I : Introduction

Chapter – I Preliminary

1. Short Title and Commencement of the Directions.

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

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

2. Applicability

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

(i) every non-banking financial company not accepting / holding public deposits which is not systemically important (as defined in paragraph 3 (xxviii) of the Directions;

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

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

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

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

(3) These Directions, except the provisions of paragraph 23, shall not apply to a non-banking financial company being a Government company as defined under clause

(45) of section 2 of the Companies Act, 2013 (Act 18 of 2013) and not accepting / holding public deposit.¹

(4) (i) The Directions under Chapter IV, paragraph 68 and Chapter V shall not apply to those applicable NBFCs who have not accessed any public funds and do not have any customer interface.

(ii) Applicable NBFCs accessing public funds but having no customer interface are exempt from the applicability of paragraph 68 and Chapter V of the directions.

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

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

Chapter II Definitions

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

- (i) "Act" means the Reserve Bank of India Act, 1934;
- (ii) "Bank" means the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934
- (iii) "break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;
- (iv) "carrying cost" means book value of the assets and interest accrued thereon but not received;
- (v) 'Company' means a company registered under section 3 of the Companies Act, 1956 or a corresponding provision under Companies Act, 2013;
- (vi) "companies in the group", shall mean an arrangement involving two or more entities related to each other through any of the following relationships:

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

Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

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

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

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

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

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

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

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

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

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

(xii) “fair value” means the mean of the earning value and the break up value;

(xiii) “hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt;

(xiv) “Infrastructure Finance Company” means a non-deposit taking NBFC that fulfills the following criteria :

- (a) a minimum of 75 per cent of its total assets deployed in “infrastructure loans”;
- (b) Net owned funds of ₹ 300 crore or above;
- (c) minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA, Brickwork Rating India Pvt. Ltd. (Brickwork) or equivalent rating by any other credit rating agency accredited by the Bank;
- (d) CRAR of 15 percent (with a minimum Tier I capital of 10 percent).
- (xv) “Infrastructure lending” means a credit facility extended by non-banking financial company to a borrower, by way of term loan, project loan subscription to bonds/debentures/preference shares/ equity shares in a project company acquired as a part of the project finance package such that subscription amount to be “in the nature of advance” or any other form of long term funded facility for exposure in the following infrastructure sub-sectors

Sr. No.	Category	Infrastructure sub-sectors	
1.	Transport	i	Roads and bridges
		ii	Ports ¹
		iii	Inland Waterways
		iv	Airport
		v	Railway Track, tunnels, viaducts, bridges ²
		vi	Urban Public Transport (except rolling stock in case of urban road transport)
2.	Energy	i	Electricity Generation
		ii	Electricity Transmission
		iii	Electricity Distribution
		iv	Oil pipelines
		v	Oil / Gas / Liquefied Natural Gas (LNG) storage facility ³
		vi	Gas pipelines ⁴
3.	Water & Sanitation	i	Solid Waste Management
		ii	Water supply pipelines
		iii	Water treatment plants
		iv	Sewage collection, treatment and disposal system
		v	Irrigation (dams, channels, embankments etc)
		vi	Storm Water Drainage System
		vii	Slurry Pipelines
4.	Communication	i	Telecommunication (Fixed network) ⁵
		ii	Telecommunication towers
		iii	Telecommunication & Telecom Services

5.	Social and Commercial Infrastructure	i	Education Institutions (capital stock)
		ii	Hospitals (capital stock) ⁶
		iii	Three-star or higher category classified hotels located outside cities with population of more than 1 million
		iv	Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets
		v	Fertilizer (Capital investment)
		vi	Post harvest storage infrastructure for agriculture and horticultural produce including cold storage
		vii	Terminal markets
		viii	Soil-testing laboratories
		ix	Cold Chain ⁷
		x.	Hotels with project cost ⁸ of more than ₹ 200 crores each in any place in India and of any star rating.
		xi.	Convention Centres with project cost ⁸ of more than ₹ 300 crores each
Notes			
1	Includes Capital Dredging		
2	Includes supporting terminal infrastructure such as loading / unloading terminals, stations and buildings		
3	Includes strategic storage of crude oil		
4	Includes city gas distribution network		
5	Includes optic fibre / cable networks which provide broadband / internet		
6	Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres		
7	Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.		
8.	Applicable with prospective effect from November 29, 2013, and available for eligible projects for a period of three years; Eligible costs exclude cost of land and lease charges but include interest during construction.		

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

(xvii) "long term investment" means an investment other than a current investment;

(xviii) "Non-Banking Financial Company - Factor (NBFC-Factor)" means a non-banking financial company as defined in clause (f) of section 45-I of the RBI Act, 1934 which has its principal business as defined in paragraph 40 of these directions and has been granted a certificate of registration under sub-section (1) of section 3 of the Factoring Regulation Act, 2011.

(xix) “Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI)” means a non-deposit taking NBFC (other than a company formed and registered under section 25 of the Companies Act, 1956) that fulfils the following conditions:

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

(b) Not less than 85% of its net assets are in the nature of “qualifying assets.”

(Only the assets originated on or after January 1, 2012 shall have to comply with the Qualifying Assets criteria. As a special dispensation, the existing assets as on January 1, 2012 shall be reckoned towards meeting both the Qualifying Assets criteria as well as the Total Net Assets criteria. These assets shall be allowed to run off on maturity and shall not be renewed).

For the purpose of clause (b) above,

“Net assets” shall mean total assets other than cash and bank balances and money market instruments; and

“Qualifying assets” shall mean a loan which satisfies the following criteria:-

i. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;

ii. loan amount does not exceed ₹ 60,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;

iii. total indebtedness of the borrower does not exceed ₹ 1,00,000; Provided that loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a borrower.

iv. tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 30,000 with prepayment without penalty;

v. loan to be extended without collateral;

vi. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;

vii. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.

(xx) “Non-Operative Financial Holding Company (NOFHC)” means a non-deposit taking NBFC referred to in the "**Guidelines for Licensing of New Banks in the**

Private Sector", issued by the Bank, which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by the Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

- (xxi) "net asset value" means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme;
- (xxii) "net book value" means:
 - (a) in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 13(2) of these Directions;
 - (b) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.
- (xxiii) "owned fund" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;
- (xxiv) "public deposit" for the purpose of the Directions shall have the same meaning as defined in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions 2016.
- (xxv) "Public funds" includes funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures etc. but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue.;
- (xxvi) "subordinated debt" means an instrument, which is fully paid up, is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the non-banking financial company. The book value of such instrument shall be subjected to discounting as provided

hereunder:

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

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

(xxvii) "substantial interest" means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten per cent of the paid up capital of the company; or the capital subscribed by all the partners of a partnership firm;

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

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

(xxx) "Tier II capital" includes the following:

- (a) preference shares other than those which are compulsorily convertible into equity;
- (b) revaluation reserves at discounted rate of fifty five percent;
- (c) 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;
- (d) hybrid debt capital instruments;

(e) subordinated debt; and
to the extent the aggregate does not exceed Tier I capital.

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

Chapter III Registration

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

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

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

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

Section – II : Prudential Issues

Chapter - IV Prudential Regulations

6. Leverage Ratio

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

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

7. Income recognition

- (1) The income recognition shall be based on recognised accounting principles.
- (2) Income including interest/ discount/ hire charges/ lease rentals or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

8. Income from investments

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

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

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

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

- (3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by

Central Government or a State Government shall be taken into account on accrual basis.

9. Accounting standards

Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India (referred to in these Directions as "ICAI") shall be followed insofar as they are not inconsistent with any of these Directions.

10. Accounting of investments

- (1)
 - (i) The Board of Directors of every applicable NBFC shall frame investment policy for the company and shall implement the same;
 - (ii) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;
 - (iii) Investments in securities shall be classified into current and long term, at the time of making each investment;
 - (iv) In case of inter-class transfer –
 - (a) There shall be no such transfer on ad-hoc basis;
 - (b) such transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;
 - (c) the investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;
 - (d) the depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;
 - (e) the depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.

- (2)
 - (i) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.
 - (a) equity shares,
 - (b) preference shares,
 - (c) debentures and bonds,

- (d) Government securities including treasury bills,
- (e) units of mutual fund, and
- (f) others.

(ii) Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

(3) Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. However, applicable NBFCs may substitute fair value for the breakup value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.

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

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

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

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

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

Note: Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

11. Need for policy on demand/ call loans

- (1) The Board of Directors of every applicable NBFC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.
- (2) Such policy shall, inter alia, stipulate the following,-
 - (i) A cut-off date within which the repayment of demand or call loan shall be demanded or called up;
 - (ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut-off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
 - (iii) The rate of interest which shall be payable on such loans;
 - (iv) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;
 - (v) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;
 - (vi) A cut-off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
 - (vii) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

12. Asset classification

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

- (1) Every NBFC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

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

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

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

(b) an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms :

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 24 of the Directions;

(iii) "doubtful asset" shall mean:

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

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

(iv) loss asset shall mean:

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

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

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

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans / advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower / beneficiary when any of the above credit facilities becomes non-performing asset :

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

13. Provisioning requirements

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

Every applicable NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the

- (i) Hire purchase assets - In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by
- (a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and
 - (b) the depreciated value of the underlying asset, shall be provided for.

Explanation: For the purpose of this paragraph,

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

Additional provision for hire purchase and leased assets

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

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

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

Notes:

1. The amount of caution money/margin money or security deposits kept by the borrower with the applicable NBFC in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause

- (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement shall be deducted only against the provisions stipulated under clause (ii) above.
2. The amount of security deposits kept by the borrower with the applicable NBFC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement shall be deducted only against the provisions stipulated under clause (ii) above.
 3. It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised shall not be taken as reason for not making provision.
 4. An asset which has been renegotiated or rescheduled as referred to in paragraph 12(3)(ii)(b) of these Directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or re-schedulement as a doubtful asset or a loss asset as the case may be. Necessary provision shall be made as applicable to such asset till it is upgraded.
 5. The balance sheet to be prepared by the NBFC shall be in accordance with the provisions contained in sub-paragraph (2) of paragraph 16 of the Directions.
 6. All financial leases written on or after April 1, 2001 shall attract the provisioning requirements as applicable to hire purchase assets.

14. Standard asset provisioning

Every applicable NBFC shall make provision for standard assets at 0.25 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.

15. Multiple NBFCs

Applicable NBFCs that are part of a corporate group or are floated by a common set of promoters shall not be viewed on a standalone basis. The total assets of the NBFCs in a group including deposit taking NBFCs, if any, shall be aggregated to determine if such consolidation falls within the asset sizes of the two categories i.e. those with asset size of below ₹ 500 crore and those with asset size of ₹ 500 crore and above. The regulations as applicable to the two categories shall be applicable to each of the non-deposit taking NBFC within the group. For this purpose, Statutory Auditors are required to certify the asset size of all the NBFCs in the Group. However, NBFC-D, within the group, if any, shall be governed under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Direction 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 as applicable to deposit taking NBFCs.

16. Disclosure in the balance sheet

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

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

- (i) provisions for bad and doubtful debts; and
- (ii) provisions for depreciation in investments.

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

(4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

17. Accounting year

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

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

18. Schedule to the balance sheet

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

19. Transactions in Government securities

Every applicable NBFC shall undertake transactions in Government securities through its CSGL account or its demat account:

Provided that no applicable NBFC shall undertake any transaction in government security in physical form through any broker.

20. Loans against NBFCs own shares prohibited

No applicable NBFC shall lend against its own shares.

21. Loans against security of shares

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

- (i) maintain a Loan to Value (LTV) ratio of 50% for loans granted against the collateral of shares. LTV ratio of 50% is required to be maintained at all times.

Any shortfall in the maintenance of the 50% LTV occurring on account of movement in the share prices shall be made good within 7 working days.

- (ii) in case where lending is being done for investment in capital markets, accept only Group 1 securities (specified in SMD/ Policy/ Cir - 9/ 2003 dated March 11, 2003 as amended from time to time, issued by SEBI) as collateral for loans of value more than ₹ 5 lakh, subject to review by the Bank.
- (iii) report on-line to stock exchanges on a quarterly basis, information on the shares pledged in their favour, by borrowers for availing loans in format as given in **Annex II**.

22. Concentration of credit/investment for applicable NBFC

- (1) An applicable NBFC which is held by an NOFHC shall not
 - (i) have any exposure (credit and investments including investments in the equity / debt capital instruments) to the Promoters/ Promoter Group entities or individuals associated with the Promoter Group or the NOFHC;
 - (ii) make investment in the equity/ debt capital instruments in any of the financial entities under the NOFHC;
 - (iii) invest in equity instruments of other NOFHCs.

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

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

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

- (i) the complete postal address, telephone number/s and fax number/s of the registered/corporate office;
- (ii) the names and residential addresses of the directors of the company;
- (iii) the names and the official designations of its principal officers;
- (iv) the names and office address of the auditors of the company; and
- (v) the specimen signatures of the officers authorised to sign on behalf of the company

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

24. Norms for restructuring of advances

Norms for restructuring of advances by applicable NBFCs shall be on the lines of the norms specified by the Bank for banks as modified and set forth in **Annex IV**.

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

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

26. Loans against security of single product - gold jewellery

(1) (a) All applicable NBFCs shall

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

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

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

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

(2) Verification of the Ownership of Gold

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

determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams.

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

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

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

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

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

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

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

(4) Auction

(a) The auction shall be conducted in the same town or taluka in which the branch that has extended the loan is located.

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

Commission and value of the jewellery of lower purity in terms of carats shall be proportionately reduced.

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

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

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

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

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

(6) Opening Branches exceeding one thousand in number

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

Chapter – V

Fair Practices Code for applicable NBFC

Applicable NBFCs having customer interface shall adopt the following guidelines:

27. Applications for loans and their processing

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

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

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

28. Loan appraisal and terms/conditions

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

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

29. Disbursement of loans including changes in terms and conditions

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

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

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

30. General

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

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

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

(4) As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, applicable

NBFCs shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to individual borrowers.

31. Responsibility of Board of Directors

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

32. Grievance Redressal Officer

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

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

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

33. Language and mode of communicating Fair Practice Code

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

34. Regulation of excessive interest charged by applicable NBFC

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

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

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

35. Complaints about excessive interest charged by Applicable NBFCs

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

36. Repossession of vehicles financed by applicable NBFCs

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

- (i) notice period before taking possession;
- (ii) circumstances under which the notice period can be waived;
- (iii) the procedure for taking possession of the security;

- (iv) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property;
- (v) the procedure for giving repossession to the borrower; and
- (vi) the procedure for sale / auction of the property.

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

37. Lending against collateral of gold jewellery

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

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

- (a) Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,
- (b) Proper assaying procedure for the jewellery received,
- (c) Internal systems to satisfy ownership of the gold jewellery,
- (d) Adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans shall not be extended by branches that do not have appropriate facility for storage of the jewellery,
- (e) The jewellery accepted as collateral shall be appropriately insured,
- (f) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities,

- (g) The auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper,
- (h) As a policy, the applicable NBFCs themselves shall not participate in the auctions held,
- (i) Gold pledged shall be auctioned only through auctioneers approved by the Board,
- (j) The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

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

Chapter –VI

Specific Directions applicable to NBFC-Factor

38. Registration

(1) Every company intending to undertake factoring business shall make an application for grant of CoR as NBFC-Factor to the Bank as provided under section 3 of the Factoring Regulation Act, 2011.

(2) Existing NBFCs that satisfy all the conditions enumerated in these Directions shall approach the Regional Office of the Bank where they are registered, along with the original CoR issued by the Bank for change in their classification as NBFC-Factor. Their request shall be supported by their Statutory Auditor's certificate indicating the asset and income pattern;

(3) An entity not registered with the Bank may conduct the business of factoring if it is an entity mentioned in section 5 of the Factoring Regulation Act, 2011, i.e. a bank or any corporation established under an Act of Parliament or State Legislature, or a Government Company as defined under section 2(45) of the Companies Act, 2013;

(4) A new company that is granted CoR by the Bank as NBFC-Factor, shall commence business within six months from the date of grant of CoR by the Bank.

39. Net Owned Fund

(1) Every company seeking registration as NBFC-Factor shall have a minimum NOF of ₹ 5 crore;

(2) Existing companies seeking registration as NBFC-Factor but who do not fulfil the NOF criterion of ₹ 5 crore shall approach the Bank for time to comply with the requirement.

40. Principal Business

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

41. Conduct of Business

The NBFC-Factors shall conduct the business of factoring in accordance with the Factoring Regulation Act, 2011 and the rules and regulations framed under it from time to time.

42. Asset Classification

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

43. Exposure norms shall be reckoned as under:

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

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

44. Risk Management

Proper and adequate control and reporting mechanisms shall be put in place before factoring business is undertaken.

- a. NBFC-Factors shall carry out a thorough credit appraisal of the debtors before entering into any factoring arrangement or prior to establishing lines of credit with the export factor.
- b. Factoring services shall be extended in respect of invoices which represent genuine trade transactions.
- c. Since under “without recourse” factoring transactions, the NBFC-Factor is underwriting the credit risk on the debtor, there shall be a clearly laid down board-approved limit for all such underwriting commitments.
- d. NBFC-Factors and banks shall share information about common borrowers. For the purpose of exchange of information, the assignor will be deemed to be the borrower. NBFC-Factors shall ensure to intimate the limits sanctioned to the borrower to the concerned banks / NBFCs and details of debts factored so as to avoid double financing.

45. Export / Import Factoring

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

Chapter – VII

Specific Directions applicable to Infrastructure Finance Companies (NBFC-IFC)

46. Capital Requirements

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

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

Explanations:

I. On balance sheet assets–

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

Weighted risk assets - On-Balance Sheet items	Percentage weight
(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) Investments	
(a) Approved securities [Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) Fixed deposits/certificates of deposits/bonds of public financial institutions	100
(d) Shares of all companies and debentures / bonds/ commercial papers of all companies and units of all mutual funds	100
(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation.	50
(iii) Current assets	

(a) Stock on hire (net book value)	100
(b) Intercorporate loans/deposits	100
(c) Loans and advances fully secured against deposits held	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good[Except at (vi) below]	100
(f) Bills purchased/discouted	100
(g) Others (To be specified)	100
(iv) Fixed Assets (net of depreciation)	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
(v) Other assets	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100
(vi) Domestic Sovereign	
(a) fund based claims on the Central Government	0
(b) Direct loan / credit / overdraft exposure and investment in State Government securities	0
(c) Central Government guaranteed claims	0
(d) State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20
(e) State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

Notes:

1. Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
2. Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of `zero`.
3. While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, such non-banking financial companies shall net off the amount of cash margin/caution money/security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.

4. Norms for investment in securities pertaining to Infrastructure facility

(a) Risk weight for investment in AAA rated securitized paper

The investment in "AAA" rated securitized paper pertaining to the infrastructure facility shall attract risk weight of 50 per cent for capital adequacy purposes subject to the fulfilment of the following conditions:

- (i) The infrastructure facility generates income / cash flows, which ensures servicing / repayment of the securitized paper.
- (ii) The rating by one of the approved credit rating agencies is current and valid.

Explanation:

The rating relied upon shall be deemed to be current and valid, if the rating is not more than one month old on the date of opening of the issue, and the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and the rating letter and the rating rationale form part of the offer document.

- (iii) In the case of secondary market acquisition, the 'AAA' rating of the issue is in force and confirmed from the monthly bulletin published by the respective rating agency.
- (iv) The securitized paper is a performing asset.

II. Off-balance sheet items

(1) General

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

- (i) the notional amount of the transaction shall be converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and
- (ii) the resulting credit equivalent amount shall be multiplied by the risk weight applicable viz. zero percent for exposure to Central Government/State Governments, 20 percent for exposure to banks and 100 percent for others.

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

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

Sr. No.	Instruments	Credit Conversion Factor
i.	Financial & other guarantees	100
ii.	Share/debenture underwriting obligations	50
iii.	Partly-paid shares/debentures	100
iv.	Bills discounted/rediscounted	100
v.	Lease contracts entered into but yet to be executed	100
vi.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the applicable NBFC.	100
vii.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.	100
viii.	Lending of NBFC securities or posting of	100

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

Note:

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

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

For example:

A term loan of ₹ 700 cr 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 cr in Stage I, ₹ 200 cr in Stage II and ₹ 350 cr in Stage III, where the borrower needs the NBFC-IFCs explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already ₹ 50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be ₹ 100 cr. 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 per cent.

(3) Market Related Off-Balance Sheet Items

- (i) NBFC-IFCs shall take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo / reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures.
- (ii) The credit risk on market related off-balance sheet items is the cost to an NBFC-IFC of replacing the cash flow specified by the contract in the event of counterparty default. This shall depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.
- (iii) Market related off-balance sheet items shall include:
 - (a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

- (b) foreign exchange contracts, including contracts involving gold, - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;
 - (c) Credit Default Swaps; and
 - (d) any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.
- (iv) Exemption from capital requirements is permitted for -
- (a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and
 - (b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.
- (v) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them shall be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.
- (vi) A CCF of 100 per cent shall be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure shall be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent and for other CCPs, risk weight shall be 50 percent.
- (vii) The total credit exposure to a counter party in respect of derivative transactions shall be calculated according to the current exposure method as explained below.

(4) Current Exposure Method

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

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

periodical calculation of the current credit exposure by marking these contracts to market.

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

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

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

amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the NBFC-IFC would have an effective notional amount of USD 2 million.

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

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

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

Chapter – VIII
Specific directions applicable to Non-Banking Finance Company – Micro
Finance Institutions (NBFC-MFIs)

47. Entry Point Norms

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

48. Prudential Norms

(i) Capital Adequacy

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

Note:

Explanations:

I. On balance sheet assets–

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

Weighted risk assets - On-Balance Sheet items	Percentage weight
(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) Investments	
(a) Approved securities[Except at (c) below]	0
(b) Bonds of public sector banks	20

(c) Fixed deposits/certificates of deposits/bonds of public financial institutions	100
(d) Shares of all companies and debentures / bonds/commercial papers of all companies and units of all mutual funds	100
(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation.	50
(iii) Current assets	
(a) Stock on hire (net book value)	100
(b) Intercompany loans/deposits	100
(c) Loans and advances fully secured against deposits held	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good[Except at (vi) below]	100
(f) Bills purchased/discounted	100
(g) Others (To be specified)	100
(iv) Fixed Assets (net of depreciation)	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
(v) Other assets	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0

(d) Others (to be specified)	100
(vi) Domestic Sovereign	
(a) fund based claims on the Central Government	0
(b) Direct loan / credit / overdraft exposure and investment in State Government securities	0
(c) Central Government guaranteed claims	0
(d) State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20
(e) State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

Notes:

1. Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
2. Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of `zero`.
3. While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, NBFC-MFIs shall net off the amount of cash margin/caution money/security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.
4. For loans guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH), NBFC-MFIs shall assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion shall attract a risk-weight as mentioned in these Directions.
5. For the calculation of CRAR, the provisioning made towards loan portfolio in the state of Andhra Pradesh as on March 31, 2013(AP Portfolio), shall be notionally reckoned as part of NOF and there shall be progressive reduction in such

recognition of the provisions for AP portfolio equally over a period of 5 years. Accordingly, 100 per cent of the provision made for the AP portfolio as on March 31, 2013 shall be added back notionally to NOF for CRAR purposes as on that date. This add-back shall be progressively reduced by 20 per cent each year i.e. up to March 2017. An illustration of this has been provided in **Annex VI**. No write-back or phased provisioning is permissible.

6. Capital adequacy on non-AP portfolio and the notional AP portfolio (outstanding as on the balance sheet date less the provision on this portfolio not notionally added back) shall have to be maintained at 15 per cent of the risk weighted assets.

7. Norms for investment in securities pertaining to Infrastructure facility

(a) Risk weight for investment in AAA rated securitized paper

The investment in “AAA” rated securitized paper pertaining to the infrastructure facility shall attract risk weight of 50 per cent for capital adequacy purposes subject to the fulfilment of the following conditions:

- (i) The infrastructure facility generates income / cash flows, which ensures servicing / repayment of the securitized paper.
- (ii) The rating by one of the approved credit rating agencies is current and valid.

Explanation:

The rating relied upon shall be deemed to be current and valid, if the rating is not more than one month old on the date of opening of the issue, and the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and the rating letter and the rating rationale form part of the offer document.

- (iii) In the case of secondary market acquisition, the ‘AAA’ rating of the issue is in force and confirmed from the monthly bulletin published by the respective rating agency.
- (iv) The securitized paper is a performing asset.

II. Off-balance sheet items

(1) General

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

- (i) the notional amount of the transaction shall be converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and
- (ii) the resulting credit equivalent amount shall be multiplied by the risk weight applicable viz. zero percent for exposure to Central Government/State Governments, 20 percent for exposure to banks and 100 percent for others.

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

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

Sr. No.	Instruments	Credit Conversion Factor
i.	Financial & other guarantees	100
ii.	Share/debenture underwriting obligations	50
iii.	Partly-paid shares/debentures	100
iv.	Bills discounted/rediscounted	100
v.	Lease contracts entered into but yet to be executed	100
vi.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC-MFI.	100
vii.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.	100
viii.	Lending of NBFC securities or posting of securities as collateral by the NBFC-MFI,	100

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

Note:

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

For example:

A term loan of ₹ 700 cr 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 cr in Stage I, ₹ 200 cr in Stage II and ₹ 350 cr in Stage III, where the borrower needs the NBFC's explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already ₹ 50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be ₹ 100 cr. 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 per cent.

(3) Market Related Off-Balance Sheet Items

- (i) NBFC-MFIs shall take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo / reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures.
- (ii) The credit risk on market related off-balance sheet items is the cost to an NBFC-MFI of replacing the cash flow specified by the contract in the event of counterparty default. This would depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.
- (iii) Market related off-balance sheet items shall include:
 - (a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

- (b) foreign exchange contracts, including contracts involving gold, - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;
 - (c) Credit Default Swaps; and
 - (d) any other market related contracts specifically allowed by the Bank which give rise to credit risk.
- (iv) Exemption from capital requirements is permitted for -
- (a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and
 - (b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.
- (v) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them shall be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.
- (vi) A CCF of 100 per cent shall be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure shall be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent and for other CCPs, risk weight shall be 50 percent.
- (vii) The total credit exposure to a counter party in respect of derivative transactions shall be calculated according to the current exposure method as explained below.

(4) Current Exposure Method

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

- (i) Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same

counterparty shall not be netted). The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market.

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

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

- a. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.
- b. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity shall be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.
- c. No potential future credit exposure shall be calculated for single currency floating / floating interest rate swaps; the credit

exposure on these contracts shall be evaluated solely on the basis of their mark-to-market value.

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

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

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

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

(ii) Asset classification and provisioning norms

All NBFC-MFIs shall adopt the following norms:

(a) Asset Classification Norms:

- i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;
- ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

(b) Provisioning Norms:

- i. For nonperforming assets meeting “Qualifying Assets” criteria,
 - a. provisioning norms for the AP portfolio shall be as mentioned in paragraph 13 of these Directions.
 - b. provisioning norms for the non-AP portfolio 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% of the outstanding loan portfolio or b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more.
- ii. if the advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion shall be provided for as per provisioning norms as mentioned in paragraph 13 of these Directions.

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

(iv) An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

49. Pricing of Credit

(i) Margin cap, cap on the difference between the amount charged to the borrower and the cost of funds to the NBFC-MFI, shall not exceed 10 per cent for large MFIs (loans portfolios exceeding ₹ 100 crore) and 12 per cent for the others.

(ii) The interest rates charged by an NBFC-MFI to its borrowers shall be the lower of the following:

(a) The cost of funds plus margin as indicated in para (i) above; or

(b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.

(iii) NBFC-MFIs shall ensure that the average interest rate on loans during a financial year does not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap.

(iv) The maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent.

(v) The average interest paid on borrowings and charged by the MFI are to be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. The figures shall be certified annually by Statutory Auditors and also disclosed in the Balance Sheet.

(vi) Processing charges shall not be more than 1% of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.

(vii) NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges, where recovered, shall be as per IRDA guidelines.

50. Transparency in interest rates

- (i) There shall be only three components in the pricing of the loan viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).
- (ii) There shall be no penalty charged on delayed payment.
- (iii) NBFC-MFIs shall not collect any security deposit/ margin from the borrower.
- (iv) There shall be a standard form of loan agreement.
- (v) Every NBFC-MFI shall provide to the borrower a loan card reflecting
 - (a) the effective rate of interest charged;
 - (b) all other terms and conditions attached to the loan;
 - (c) information which adequately identifies the borrower; and
 - (d) acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge.
 - (e) All entries in the Loan Card shall be in the vernacular language.
- (vi) The effective rate of interest charged by the NBFC-MFI shall be prominently displayed in all its offices and in the literature issued by it and on its website.

51. Multiple-lending, Over-borrowing and Ghost-borrowers

- (i) NBFC-MFIs can lend to individual borrowers who are not member of Joint Liability Group(JLG)/Self Help Group(SHG) or to borrowers that are members of JLG/SHG.
- (ii) A borrower cannot be a member of more than one SHG/JLG.
- (iii) Not more than two NBFC-MFIs shall lend to the same borrower.
- (iv) There must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment. The moratorium shall not be less than the frequency of repayment e.g. in the case of weekly repayment, the moratorium shall not be less than one week.
- (v) Recovery of loan given in violation of the regulations shall be deferred till all prior existing loans are fully repaid.

52. Ensuring compliance with conditionalities

Every NBFC-MFI has to be a member of all Credit Information Companies (CICs) established under the CIC Regulation Act 2005, provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the conditions regarding membership of SHG/ JLG, level of indebtedness and sources of

borrowing. While the quality and coverage of data with CICs will take some time to become robust, the NBFC-MFIs may rely on self-certification from the borrowers and their own local enquiries on these aspects as well as the annual household income.

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

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

- (a) loans disbursed or managed by NBFC-MFIs in their capacity as channelizing agents for Central/State Government Agencies shall be considered as a separate business segment. These loans shall not be included either in the numerator (qualifying assets) or the denominator (total assets) for the purpose of determining compliance with the minimum qualifying assets criteria;
- (b) consequent to (a) above, the interest charged on such loans shall be excluded for determining the variance between the maximum and minimum interest rate;
- (c) the cost of such funds shall not be reckoned for arriving at average cost of funds as well as interest rates charged to borrowers as per Para (49) above.

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

- (a) accounts and records for such loans as well as funds received/ receivable from concerned agencies shall be maintained in the books of NBFC-MFI distinct from other assets and liabilities, and depicted in the financials/ final accounts/balance sheet with requisite details and disclosures as a separate segment;
- (b) such loans shall be subject to applicable asset classification, income recognition and provisioning norms as well as other prudential norms as applicable to NBFC-MFIs except in cases where the NBFC-MFI does not bear any credit risk;
- (c) all such loans shall be reported to credit information companies (CICs) to prevent multiple borrowings and present complete picture of indebtedness of a borrower.

54. Others

All NBFC-MFIs shall refer to the directions issued to banks by the Financial Inclusion and Development Department (FIDD) on bank loans to “Micro Finance Institutions (MFIs) – Priority Sector status” with regard to guidelines on priority sector.

55. Geographical Diversification

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

56. Formation of SRO

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

57. 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.

58. Fair Practices Code (FPC) for NBFC-MFIs

In addition to the general principles on FPC as provided in Chapter V of these Directions, NBFC-MFIs shall adopt the following fair practices that are specific to them:

(i) General

- (a) The FPC in vernacular language shall be displayed by an NBFC-MFI in its office and branch premises.

- (b) A statement shall be made in vernacular language and displayed by NBFC-MFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices.
- (c) Field staff shall be trained to make necessary enquiries with regard to existing debt of the borrowers.
- (d) Training, if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products.
- (e) The effective rate of interest charged and the grievance redress system set up by the NBFC-MFI shall be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website.
- (f) A declaration that the NBFC-MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal, shall be made in the loan agreement and also in the FPC displayed in its office/branch premises.
- (g) The KYC Directions of the Bank shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers.
- (h) All sanctions and disbursement of loans shall be done only at a central location and more than one individual must be involved in this function. In addition, there shall be close supervision of the disbursement function.
- (i) Adequate steps shall be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

(ii) Disclosures in loan agreement / loan card

- (a) All NBFC-MFIs shall have a Board approved, standard form of loan agreement. The loan agreement shall preferably be in vernacular language.
- (b) In the loan agreement, the following shall be disclosed:
 - i. all the terms and conditions of the loan,
 - ii. that the pricing of the loan involves only three components viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),
 - iii. that there will be no penalty charged on delayed payment,
 - iv. that no security deposit / margin is being collected from the borrower,

- v. that the borrower cannot be a member of more than one SHG / JLG,
- vi. the moratorium period between the grant of the loan and the due date of the repayment of the first installment,
- vii. an assurance that the privacy of borrower data shall be respected.

(c) The loan card shall reflect the following details:

- i. the effective rate of interest charged,
- ii. all other terms and conditions attached to the loan,
- iii. information which adequately identifies the borrower and acknowledgements by the NBFC-MFI of all repayments including installments received and the final discharge,
- iv. the loan card shall prominently mention the grievance redress system set up by the NBFC-MFI and also the name and contact number of the nodal officer,
- v. non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself,
- vi. all entries in the loan card shall be in the vernacular language.

(iii) Non-coercive methods of recovery

(a) Recovery shall normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on two or more successive occasions.

(b) NBFC-MFIs shall ensure that a Board approved policy is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code shall lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behaviour towards borrowers without adopting any abusive or coercive debt collection / recovery practices.

(c) Compensation methods for staff shall have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Penalties may also be imposed in cases of non-compliance by field staff

with the Code of conduct. Generally, only employees and not out sourced recovery agents shall be used for recovery in sensitive areas.

(iv) Customer Protection Initiatives

(a) NBFC-MFIs shall ensure that greater resources are devoted to professional inputs in the formation of SHG/ JLG and appropriate training and skill development activities for capacity building and empowerment after formation of the groups.

(b) All NBFC-MFIs shall be prudent and responsible in their lending activity besides educating their borrowers on the dangers of wasteful conspicuous consumption.

Section III : Governance Issues

**Chapter - IX
Acquisition / Transfer of Control of Applicable NBFCs**

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

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

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

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

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

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

60. Notwithstanding paragraph 59, applicable NBFCs shall continue to inform the Bank regarding any change in their directors / management.

61. Application for prior approval

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

- (a) Information about the proposed directors / shareholders as per the **Annex VIII**;
- (b) Sources of funds of the proposed shareholders acquiring the shares in the applicable NBFC;
- (c) Declaration by the proposed directors / shareholders that they are not associated with any unincorporated body that is accepting deposits;
- (d) Declaration by the proposed directors / shareholders that they are not associated with any company, the application for CoR of which has been rejected by the Bank;
- (e) Declaration by the proposed directors / shareholders that there is no criminal case, including for offence under section 138 of the Negotiable Instruments Act, against them; and
- (f) Bankers' Report on the proposed directors / shareholders.

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

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

(1) A public notice of at least 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares. Such public notice shall be given by the applicable NBFC and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the Bank.

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

Section IV : Miscellaneous Issues

Chapter - X

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

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

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

64. 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% of the NOF. The overseas investment in a single entity, including its step down subsidiaries, by way of equity or fund based commitment shall not be more than 15% of the applicable NBFC's owned funds;
- (v) Overseas investment shall not involve multi layered, cross jurisdictional structures and at most only a single intermediate holding entity shall be permitted;
- (vi) The CRAR/Leverage of the applicable NBFCs post investment in subsidiary abroad shall be not less than the regulatory prescriptions;
- (vii) The applicable NBFC shall continue to maintain required level of NOF after accounting for investment in the proposed subsidiary/investment abroad as prescribed in the explanation to section 45-IA of the RBI Act;

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

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

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

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

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

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

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

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

65. Specific conditions.

(1) Opening of Branch

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

(2) Opening of subsidiary abroad by applicable NBFCs

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

- (a) In case of opening of subsidiary abroad, the parent applicable NBFC shall not be permitted to extend implicit or explicit guarantee to or on behalf of such subsidiaries;
- (b) No request for letter of comfort in favour of the subsidiary abroad from any institution in India shall be permitted;
- (c) It shall be ensured that applicable NBFCs liability in the proposed overseas entity is restricted to its either equity or fund based commitment to the subsidiary;
- (d) The subsidiary being established abroad shall not be a shell company i.e "a company that is incorporated, but has no significant assets or operations." However, companies undertaking activities such as financial consultancy and advisory services with no significant assets shall not be considered as shell companies;
- (e) The subsidiary being established abroad by the applicable NBFC shall not be used as a vehicle for raising resources for creating assets in India for the Indian operations;
- (f) In order to ensure compliance of the provisions, the parent applicable NBFC shall obtain periodical reports/audit reports about the business undertaken by the subsidiary abroad and shall make them available to the Bank and inspecting officials of the Bank;
- (g) If the subsidiary has not undertaken any activity or such reports are not forthcoming, the approvals given for setting up a subsidiary abroad shall be reviewed/ recalled;
- (h) The permission granted to any applicable NBFC for setting up of overseas subsidiary shall be subject to condition that the subsidiary shall make disclosure in its Balance Sheet to the effect that liability of the parent entity in the proposed overseas entity shall be limited to its either equity or fund based commitment to the subsidiary;

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

(3) Joint Ventures abroad

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

(4) Opening of representative offices abroad

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

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

Chapter - XI Miscellaneous Instructions

66. Expansion of activities of applicable NBFC through automatic route

Applicable NBFC with Foreign Direct Investment (FDI) under the automatic route shall be permitted to undertake only those activities which are permissible under the automatic route. Diversification into any other activity shall require the prior approval of FIPB. A company which has entered into an area permitted under the FDI policy (such as software) and seeks to diversify into NBFC sector subsequently would also have to ensure compliance with the minimum capitalization norms and other regulations as applicable.

67. Ratings of applicable NBFCs

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

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

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

69. 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 45l(c) of the RBI Act. Besides, bank deposits constitute near money and can be used only for temporary parking of idle funds, and/or in cases where the funds are parked in fixed deposits initially to fulfil the requirement of registration as NBFC i.e. NOF of ₹ 200 lakhs, till commencement of NBF business.

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

All applicable NBFCs shall follow the guidelines on transactions in Government Securities as given in the [circular IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004](#) and [IDMD.PDRS.4777, 4779 & 4783/10.02.01/2004-05 all dated May 11, 2005](#) as amended from time to time. In cases of doubt they shall make a reference to IDMD.

71. FIMMDA Reporting Platform for Corporate Bond Transactions

All applicable NBFCs shall be required to report their secondary market transactions in corporate bonds done in OTC market, on FIMMDA's reporting platform.

72. Unsolicited Commercial Communications - National Do Not Call Registry

(1)

Applicable NBFCs shall

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

shall engage only those telemarketers who are registered in terms of the guidelines issued by TRAI, from time to time, for all their promotional/ telemarketing activities.

- (ii) furnish the list of Telemarketers (DSAs/DMAAs) 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.

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

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

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

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

- (i) The balance in DTL account shall not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose as it is not an eligible item of capital.
- (ii) DTA shall be treated as an intangible asset and shall be deducted from Tier I Capital.

(2) In this connection

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

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

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

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

(i) DTA associated with accumulated losses; and

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

75. Introduction of Interest Rate Futures

(1) Applicable NBFCs can participate in the designated interest rate futures (IRF) exchanges recognized by SEBI, as clients, subject to RBI / SEBI guidelines in the matter, for the purpose of hedging their underlying exposures. Applicable NBFCs participating in IRF exchanges shall submit the data in this regard half yearly, in the prescribed format, to the Regional Office of the Department of Non-Banking Supervision of the Bank in whose jurisdiction their company is registered, within a period of one month from the close of the half year.

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

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

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

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

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

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

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

78. Participation in Currency Futures

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

79. Entry into insurance business

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

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

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

80. Issue of Credit Card

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

81. Issue of Co-branded Credit Cards

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

82. Distribution of Mutual Fund (MF) products

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

83. Applicable NBFCs not to be partners in partnership firms

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

(2) In this connection;

- a) Partnership firms shall also include Limited Liability Partnerships (LLPs).
- b) The aforesaid prohibition shall also be applicable in respect of Association of persons, these being similar in nature to partnership firms

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

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

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

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

- (a) keep the credit information maintained by it, updated regularly on a monthly basis or at such shorter intervals as mutually agreed upon between the credit institution and the credit information company; and
- (b) take all such steps which may be necessary to ensure that the credit information furnished by it, is update, accurate and complete.

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

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

- (i) Creating Awareness about Credit Information Report (CIR);
- (ii) Usage of CIR in all Lending Decisions and Account Opening;
- (iii) Populating Commercial Data Records in Databases of all CICs;
- (iv) Standardisation of Data Format;
- (v) Constitution of a Technical Working Group;
- (vi) Process of Rectification of Rejected Data;
- (vii) Determining Data Quality Index;
- (viii) Calibration of Credit Score and Standardising Format of CIR;
- (ix) Best practices for Banks/FIs.

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

86. Implementation of Green Initiative of the Government

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

87. Attempt to defraud using fake bank guarantee-modus operandi

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

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

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

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

(1) Applicable NBFCs shall only participate in CDS market as users. As users, they shall buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not sell protection and hence shall not enter into short positions in the CDS contracts. They shall exit their bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond.

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

89. Guidelines on Securitisation Transactions

Guidelines on Securitisation of Standard Assets as provided for in **Annex XIII** shall be adhered to by applicable NBFCs.

90. Reset of Credit Enhancement

(1) Guidelines on reset of credit enhancement were issued to banks vide [circular DBOD.No.BP.BC-25/21.04.177/2013-14, dated July 1, 2013](#) and amended from time to time. The guidelines cover in detail the manner in which such reset could be carried out subject to the conditions prescribed therein. The guidelines shall also apply to securitization transactions undertaken by applicable NBFCs.

(2) In respect of the transactions already entered into in terms of [circular dated DNBS.PD.No.301/3.10.01/2012-13, dated August 21, 2012](#), reset can be carried out subject to the consent of all investors of outstanding securities. In respect of the transactions entered into prior to August 2012 guidelines, the stipulation pertaining to MRR shall also have to be complied with in addition to other conditions for reset of Credit Enhancement mentioned in para(1) above.

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

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

92. Filing of records of mortgages with the Central Registry

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

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

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

94. Asset Liability Management

(1) ALM guidelines as given in **Annex XVI** shall be applicable to all applicable NBFCs irrespective of whether they are accepting / holding public deposits or not. To begin with, applicable NBFCs meeting the criteria of asset base of Rs.100 crore or more (whether accepting / holding public deposits or not) or holding public deposits of Rs. 20 crore or more (irrespective of their asset size) as per their last audited balance sheet shall be required to put in place the ALM System.

(2) A pre-requisite for putting in place the ALM System is a strong Management Information System (MIS). For a quick analysis and consolidation of the data, it may be necessary to computerise the MIS and make use of specialised software for managing the assets and liabilities with respect to the maturity mismatches and the various risks associated with such mismatches. The applicable NBFCs shall install such systems at the earliest, if not already done.

(3) Other applicable NBFCs which do not meet the criteria mentioned in sub para (1) of paragraph 94, may also put in place the system of ALM as it is the endeavour of the Bank to gradually introduce it for all the applicable NBFCs, for safeguarding interests of depositors and preventing systemic risks.

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

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

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

Non-deposit accepting applicable NBFCs may act as sub-agents under MTSS without any prior approval of the Bank.

97. Provision of Safe Deposit Locker Facility by applicable NBFCs

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

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

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

99. Criteria for deciding NBFC-ND-SI status

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

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

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

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

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

Considering the protection available under section 25 of the Payment and Settlement Systems Act, 2007 which accords the same rights and remedies to the payee (beneficiary) against dishonor of electronic funds transfer instructions on grounds of insufficiency of funds as are available under section 138 of the Negotiable Instruments Act, 1881, there shall be no need for applicable NBFCs to take additional cheques, if any, from customers in addition to ECS (Debit) mandates.

Cheques complying with CTS-2010 standard formats shall alone be obtained in locations, where the facility of ECS/RECS is not available.

102. Refinancing of Project Loans

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

- i. Such loans shall be 'standard' in the books of the existing lenders, and shall have not been restructured in the past;
- ii. Such loans shall be substantially taken over (more than 50% of the outstanding loan by value) from the existing financing lenders; and
- iii. The repayment period shall be fixed by taking into account the life cycle of the project and cash flows from the project.

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

- i. The project shall have started commercial operation after achieving Date of Commencement of Commercial Operation (DCCO);
- ii. The repayment period shall be fixed by taking into account the life cycle of and cash flows from the project, and, Boards of the existing and new lenders shall be satisfied with the viability of the project. Further, the total repayment period shall not exceed 85% of the initial economic life of the project / concession period in the case of PPP projects;
- iii. Such loans shall be 'standard' in the books of the existing lenders at the time of the refinancing;

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

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

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

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

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

The Bank has issued guidelines to banks in regard to matters relating to relief measures to be provided in areas affected by natural calamities vide [FIDD.No.FSD.BC.52/05.10.001/2014-15 dated March 25, 2015](#), [FIDD.No.FSD.BC.12/05.10.001/2015-16 dated August 21, 2015](#) and [FIDD.No.FSD.BC.27/05.10.001/2015-16 dated June 30, 2016](#). These guidelines shall be mutatis mutandis, applicable, to NBFCs, in areas affected by natural calamities as identified for implementation of suitable relief measures by the institutional framework viz., District Consultative Committee / State Level Bankers' Committee

Chapter - XII Reporting Requirements

104. The reporting requirements as prescribed by Department of Non-Banking Supervision shall be adhered to by all applicable NBFCs.

Chapter – XIII Interpretations

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

Chapter - XIV Repeal Provisions

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

Sr. No.	Circular No.	Date	Subject
1	Notification No.DNBS.128/CGM(VSNM)-98	December 18, 1998	NBFC Prudential Norms (Reserve Bank) Directions, 1998
2	DNBS.(PD).CC.No.11/02.01/99-2000	November 15, 1999	Amendments to NBFC Regulations
3	Notification No.DNBS.135/CGM(VSNM)-2000	January 13, 2000	NBFC Prudential Norms (Reserve Bank) Directions, 1998
4	Notification DNBS.142/CGM(VSNM)-2000	June 30, 2000	NBFC Prudential Norms (Reserve Bank) Directions, 1998
5	DNBS(PD).CC.No.15/02.01/2000-2001	June 27, 2001	Asset Liability Management (ALM) System for NBFCs - Guidelines
6	DNBS.(PD).CC.No.16/02.01/2000-01	June 27, 2001	Amendments to NBFC Regulations
7	DNBS (PD) C.C. No.35/10.24/2003-04	February 10, 2004	Entry of NBFCs into Insurance Business
8	DNBS (PD) CC No. 38/02.02/2003-04	June 11, 2004	Transactions in Government Securities

9	DNBS (PD) C.C. No.41/10.27/2004-05	July 7, 2004	Issue of credit card
10	DNBS (PD) CC No.49/02.02/2004-05	June 9, 2005	Operative instructions relating to relaxation/modification in Ready Forward Contracts, Settlement of Government Securities Transactions and Sale of securities allotted in Primary Issues
11	DNBS.(PD).C.C.No.63/02.02/2005-06	January 24, 2006	Prior Public Notice About Change in Control / Management
12	DNBS (PD) CC No.80/03.10.042/2005-06	September 28, 2006	Guidelines on Fair Practices Code for Non-Banking Financial Companies
13	DNBS (PD) CC No. 82/03.02.02/2006-07	October 27, 2006	Prior Public Notice about change in control / management
14	DNBS (PD) CC No.83/03.10.27/2006-07	December 04, 2006	Issue of Co-branded Credit Cards
15	DNBS (PD) CC No.84/03.10.27/2006-07	December 4, 2006	Distribution of Mutual Fund products by NBFCs
16	DNBS.PD/ CC. No.86/03.02.089/2006-07	December 12, 2006	Financial Regulation of Systemically Important NBFCs and Banks' Relationship with them – for NBFCs'
17	DNBS.PD/ CC. No. 89/03.05.002/2006-07	February 22, 2007	Prudential Norms Directions – Deposit taking and Non-deposit taking Non-Banking Financial Companies (NBFCs)
18	DNBS.PD/CC.No.95/03.05.002/2006-07	May 24, 2007	Complaints about excessive interest charged by NBFCs
19	DNBS.PD/CC.104/03.10.042/2007-08	July 11, 2007	Guidelines on Corporate Governance
20	DNBS.PD/C.C.No.96/03.10.001/2007-08	July 31, 2007	NBFCs - FIMMDA Reporting Platform for Corporate Bond Transactions
21	DNBS.PD/CC.No.107/03.10.042/2007-08	October 10, 2007	Guidelines on Fair Practices Code for Non-Banking Financial Companies
22	DNBS.PD/C.C No.109/03.10.001/2007-08	November 26, 2007	Unsolicited Commercial Communications - National Do Not Call Registry
23	DNBS (PD) C.C.No.124/03.05.002/2008-09	July 31, 2008	Accounting for taxes on income- Accounting Standard 22- Treatment of deferred tax assets (DTA) and deferred tax liabilities (DTL) for computation of capital
24	DNBS(PD).CC.No.125/03.05.002/2008-2009	August 1, 2008	Guidelines for NBFC-ND-SI as regards capital adequacy, liquidity and disclosure norms

25	DNBS.PD.CC No.128/03.02.059/2008-09	September 15, 2008	Reclassification of NBFCs
26	DNBS (PD) C.C.No.133/03.10.001/2008-09	January 2, 2009	Regulation of excessive interest charged by NBFCs
27	DNBS (PD) CC.No.134/03.10.001/2008-2009	February 04, 2009	Ratings of NBFCs
28	DNBS (PD) CC.No.139/03.10.001/2008-09	April 24, 2009	Clarification regarding repossession of vehicles financed by NBFCs
29	DNBS (PD) CC.No.141/03.10.001/2008-09	June 4, 2009	Applicability of NBFCs-ND-SI regulations
30	DNBS.PD/CC.No.142/03.05.002/2008-09	June 9, 2009	NBFCs - Treatment of Deferred Tax Assets/Deferred Tax Liabilities for Computaion of Capital
31	DNBS.PD.CC.No.161/3.10.01/2009-10	September 18, 2009	Introduction of Interest Rate Futures- NBFCs
32	DNBS.PD/CC.No.165/03.05.002/2009-10	December 1, 2009	Capital Adequacy - Risk weightage on Lending through Collateralized Borrowing and Lending Obligation (CBLO)
33	DNBS.PD.CC No.168/03.02.089/2009-10	February 12, 2010	Infrastructure Finance Companies
34	DNBS (PD).CC.No.173/03.10.01/2009-10	May 03, 2010	Overseas Investment by NBFCs- No Objection (NoC) from DNBS, RBI
35	DNBS (PD) C.C No.174/03.10.001/2009-10	May 6, 2010	Finance for Housing Projects – Incorporating clause in the terms and conditions to disclose in pamphlets/brochures/advertisements, information regarding mortgage of property to the NBFC
36	DNBS.CC.PD.No.191/03.10.01/2010-11	July 27, 2010	Loan facilities to the physically / visually challenged by NBFCs
37	DNBS (PD) CC No.195/03.10.001/2010-11	August 9, 2010	Participation in Currency Futures
38	DNBS.(PD).CC.No.200/03.10.001/2010-11	September 17, 2010	Submission of data to Credit Information Companies Format of data to be submitted by Credit Institutions
39	Notification No.DNBS.(PD).219/CGM(US)-2011	January 5, 2011	Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007
40	DNBS.CC.PD.No.208/03.10.01/2010-11	January 27, 2011	Services to Persons with Disability - Training Programme for Employees

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

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

71	DNBS.PD/CC.No 359/03.10.001/2013-14	November 06, 2013	Migration of Post-dated cheques (PDC)/Equated Monthly Installment (EMI) Cheques to Electronic Clearing Service (Debit)
72	DNBS.(PD).CC.No 360/03.10.001/2013-14	November 12, 2013	Filing of records of equitable mortgages with the Central Registry
73	DNBS.PD.CC.No 361/03.02.002/2013-14	November 28, 2013	Participation of NBFCs in Insurance sector
74	DNBS.PD.CC.No.362/03.10.001/2013-14	November 29, 2013	Financing of Infrastructure - Definition of 'Infrastructure Lending'
75	DNBS.PD.363/03.10.38/2013-14	January 1, 2014	Advances guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) – Risk Weights and Provisioning
76	DNBS.CC.PD.No.365/03.10.01/2013-14	January 08, 2014	Lending Against Security of Single Product – Gold Jewellery
77	DNBS.CO.PD.No 367/03.10.01/2013-14	January 23, 2014	Review of Guidelines on Restructuring of Advances by NBFCs
78	DNBS (PD) CC.No.369/03.10.038/2012-13	February 07, 2014	'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions – Modifications in "Pricing of Credit"
79	DNBS (PD) CC.No.371/03.05.02/2013-14	March 21, 2014	Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy
80	DNBS.PD.No.372/3.10.01/2013-14	March 24, 2014	Revision to the Guidelines on Securitisation Transactions - Reset of Credit Enhancement
81	DNBS (PD) CC.No.373/03.10.01/2013-14	April 07, 2014	Investment through Alternative Investment Funds – Clarification on Calculation of NOF of an NBFC
82	DNBS (PD).CC.No.374/03.10.001/2013-14	April 07, 2014	Registration of Non-Operative Financial Holding Companies (NOFHCs)
83	DNBS (PD) CC.No.376/03.10.001/2013-14	May 26, 2014	Requirement for obtaining prior approval of RBI in cases of acquisition/ transfer of control of NBFCs

84	DNBS.CC.PD.No.377/03.10.01/2013-14	May 27, 2014	Rounding off transactions to the Nearest Rupee by NBFCs
85	DNBS(PD).CC.No.399/03.10.42/2014-15	July 14, 2014	Levy of foreclosure charges/pre-payment penalty on Floating Rate Loans
86	DNBS.CC.PD.No.405/03.10.01/2014-15	August 12, 2014	Appointment of Non-Deposit Accepting NBFCs with asset size of ₹100 crore and above as sub - agents under Money Transfer Service Schemes (MTSS)
87	DNBS.CC.PD.No.406/03.10.01/2014-15	August 12, 2014	Interest Rate Futures - NBFCs
88	DNBS (PD).CC.No 407/03.10.42/2014-15	August 20, 2014	Data Format for Furnishing of Credit Information to Credit Information Companies (CICs) and other Regulatory Measures
89	DNBS (PD).CC.No.408/03.10.001/2014-15	August 21, 2014	NBFCs- Lending against Shares
90	DNBR (PD) CC.No.002/03.10.001/2014-15	November 10, 2014	Revised Regulatory Framework for NBFC
91	DNBR (PD) CC.No.003/22.10.91/2014-15	November 10, 2014	Review of the Non-Banking Financial Company – Factors (Reserve Bank) Directions, 2012
92	DNBR.CO.PD.No.011/03.10.01/2014-15	January 16, 2015	Review of Guidelines on Restructuring of Advances by NBFCs
93	DNBR.PD.CC.No.012/03.10.001/2014-15	January 19, 2015	Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries
94	DNBR.(PD).CC.No.015/03.10.001/2014-15	January 28, 2015	Submission of Data to Credit Information Companies - Format of Data to be submitted by Credit Institutions
95	DNBR.(PD).CC.No.019/03.10.001/2014-15	February 06, 2015	Membership of Credit Information Companies (CICs)
96	DNBR (PD) CC No.021/03.10.001/2014-15	February 20, 2015	Raising Money through Private Placement of Non-Convertible Debentures (NCDs) by NBFCs
97	Notification No.DNBR.008/CGM.(CDS)-2015	March 27, 2015	Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015
98	DNBR.012/CGM.(CDS)-2015	March 27, 2015	Non-Banking Financial Company - Factor (Reserve Bank) Directions, 2012 (Amendment)
99	DNBR.CC.PD.No.027/03.10.01/2014-15	April 08, 2015	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) –

			Directions – Modifications
100	DNBR (PD).CC.No.028/03.10.001/2014-15	April 10, 2015	NBFCs- Lending against Shares – Clarification
101	DNBR. (PD).CC.No.033/03.10.001/2014-15	April 30, 2015	Distribution of Mutual Fund products by NBFCs
102	DNBR.CC.PD.No.036/03.10.01/2014-15	May 21, 2015	Lending against security of single product - Gold Jewellery
103	DNBR.CC.PD.No.041/03.10.01/2014-15	June 25, 2015	Appointment of Non-Deposit Accepting NBFCs with asset size of ₹ 100 crore and above as sub-agents under Money Transfer Service Schemes (MTSS)
104	DNBR (PD) CC.No.065/03.10.001/2015-16	July 09, 2015	Requirement for obtaining prior approval of RBI in cases of acquisition/ transfer of control of Non-Banking Financial Companies (NBFCs)
105	DNBR.CC.PD.No.066/03.10.01/2015-16	July 23, 2015	Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy - Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
106	DNBR.CO.PD.No.067/03.10.01/2015-16	July 30, 2015	Review of Guidelines on Restructuring of Advances by NBFCs
107	DNBR.CC.PD.No.069/ 03.10.01/2015-16	October 01, 2015	Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications
108	DNBR.CC.PD.No.070/03.10.01/2015-16	October 29, 2015	Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy - Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
109	DNBR.CC.PD.No.071/03.10.038/2015-16	November 26, 2015	Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions DNBS.PD.No. 234/CGM (US)-2011 dated December 2, 2011 and DNBR.CC.PD.No.

			027/03.10.01/2014-15 dated April 08, 2015 – Revision of the loan amount with tenure not less than 24
110	DNBR(PD).CC.No.072/03.10.001/2015-16	January 28, 2016	Provision of Safe Deposit Locker facility by NBFCs
111	DNBR (PD)CC.No.073/03.10.001/2015-16	February 18, 2016	Undertaking of Point of Presence (PoP) Services under Pension Fund Regulatory and Development Authority for National Pension System (NPS)
112	DNBR.CC.PD.No.074/03.10.01/2015-16	February 18, 2016	NBFC – Factors (Reserve Bank) Directions, 2012 – Review
113	DNBR.(PD).CC.No.076/03.10.001/2015-16	March 10, 2016	Review of risk weights assigned to sovereign debt
114	DNBR.CC.PD.No.078/03.10.038/2015-16	April 13, 2016	Non-Banking Financial Company-Micro Finance Institutions (Reserve Bank) Directions, 2011 – Acting as Channelizing Agents for Schemes operated by Central/State Government Agencies
115	DNBR.CC.PD.No.081/03.10.01/2015-16	May 26, 2016	Review of Framework for Revitalising Distressed Assets in the Economy and Strategic Debt Restructuring Mechanism
116	DNBR.CC.PD.No.082/03.10.001/2015-16	June 2, 2016	Refinancing of Project Loans
117	DNBR(PD)CC.No.083/03.10.001/2016-17	July 28, 2016	Guidelines for Relief Measures by NBFCs in areas affected by Natural Calamities

(C.D.Srinivasan)
Chief General Manager

Schedule to the Balance Sheet of a NBFC

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

	(iii)	Units of mutual funds		
	(iv)	Government Securities		
	(v)	Others (please specify)		
2.	Unquoted			
	(i)	Shares		
		(a) Equity		
		(b) Preference		
	(ii)	Debentures and Bonds		
	(iii)	Units of mutual funds		
	(iv)	Government Securities		
	(v)	Others (please specify)		
Long Term investments				
1.	Quoted			
	(i)	Share		
		(a) Equity		
		(b) Preference		
	(ii)	Debentures and Bonds		
	(iii)	Units of mutual funds		
	(iv)	Government Securities		
	(v)	Others (please specify)		
2.	Unquoted			
	(i)	Shares		
		(a) Equity		
		(b) Preference		
	(ii)	Debentures and Bonds		
	(iii)	Units of mutual funds		
	(iv)	Government Securities		
	(v)	Others (please specify)		
	(vi)			
(6)	Borrower group-wise classification of assets financed as in (3) and (4) above :			
	Please see Note 2 below			
	Category		Amount net of provisions	
			Secured	Unsecured
				Total
1.	Related Parties **			
	(a)	Subsidiaries		
	(b)	Companies in the same group		
	(c)	Other related parties		
2.	Other than related parties			
	Total			
(7)	Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted) :			
	Please see note 3 below			
	Category		Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
1.	Related Parties **			
	(a)	Subsidiaries		
	(b)	Companies in the same group		
	(c)	Other related parties		
2.	Other than related parties			
	Total			
	** As per Accounting Standard of ICAI (Please see Note 3)			
(8)	Other information			
	Particulars		Amount	
(i)	Gross Non-Performing Assets			
	(a)	Related parties		
	(b)	Other than related parties		

	(ii)	Net Non-Performing Assets	
	(a)	Related parties	
	(b)	Other than related parties	
	(iii)	Assets acquired in satisfaction of debt	
Notes :			
1.	As defined in point xix of paragraph 3 of Chapter -2 of these Directions.		
2.	Provisioning norms shall be applicable as prescribed in these Directions.		
3.	All 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 or current in (5) above.		

Data on Pledged Securities

Name of the NBFC Lender					
PAN					
Date of Reporting					
Share holding 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

Guidelines for Licensing of New Banks in the Private Sector

Definitions

I. Promoter

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

II. Promoter Group

"Promoter Group" includes :

- (i) the promoter;
- (ii) relatives of the promoter as defined in Section 6 of Companies Act 1956; and
- (iii) in case promoter is a body corporate :
 - (A) a subsidiary or holding company of such body corporate;
 - (B) any body corporate in which the promoter holds ten per cent or more of the equity share capital or which holds ten per cent or more of the equity share capital of the promoter;
 - (C) any body corporate in which a group of individuals or companies or combinations thereof which hold twenty per cent or more of the equity share capital in that body corporate also holds twenty per cent or more of the equity share capital of the promoter;
 - (D) Joint venture (as defined in terms of AS 23) with the promoter;
 - (E) Associate (as defined in terms of AS 27) of the promoter;
 - (F) Related party (as defined in terms of AS 18) of the promoter; and
- (iv) in case the promoter is an individual :
 - (A) any body corporate in which ten per cent or more of the equity share capital is held by the promoter or a relative of the promoter or a firm or Hindu Undivided Family in which the promoter or any one or more of his immediate relative is a member;
 - (B) any body corporate in which a body corporate as provided in (A) above holds ten per cent or more, of the equity share capital;

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

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

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

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

Norms on Restructuring of Advances by NBFC

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

2. Key Concepts

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

3. Projects under implementation

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

3.2 Project Loans

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

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

- (a) Project Loans for infrastructure sector
- (b) Project Loans for non-infrastructure sector

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

3.3. Project Loans for Infrastructure Sector

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

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

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

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

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

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

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

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

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

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

Particulars	Provisioning Requirement	
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	*	0.25 percent
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 per cent - 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 percent - with effect from March 31, 2014
	-	3.50 percent - with effect from March 31, 2015(spread over the four quarters of 2014-15)
	-	4.25 percent - with effect from March 31, 2016(spread over the four quarters of 2015-16)
	-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17)
*	The above provisions shall be applicable	

	from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.
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(v) For the purpose of these Directions, mere extension of DCCO shall not be considered as restructuring, if the revised DCCO falls within the period of two years from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO shall also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans shall be treated as standard assets in all respects, they shall attract standard asset provision of 0.25 per cent.

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

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

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

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

- i) NBFCs may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;
- ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during

construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;

- iii) The Debt Equity Ratio as agreed at the time of initial financial closure shall remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio shall be acceptable to the lenders;
- iv) Disbursement of funds for cost overruns shall start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and
- v) All other terms and conditions of the loan shall remain unchanged or enhanced in favour of the lenders.

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

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

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

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

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

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

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

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

vi) Asset classification of the account as on the 'reference date' shall continue during the extended period. For this purpose, the 'reference date' shall be the date of execution of preliminary binding agreement between the parties to the transaction, provided that the acquisition/takeover of ownership as per the provisions of law/regulations governing such acquisition/takeover is completed within a period of 90 days from the date of execution of preliminary binding agreement. During the intervening period, the usual asset classification norms

shall continue to apply. If the change in ownership is not completed within 90 days from the preliminary binding agreement, the 'reference date' shall be the effective date of acquisition/takeover as per the provisions of law/regulations governing such acquisition/takeover;

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

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

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

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

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

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

(b) The loan disbursement is yet to begin;

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

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

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

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

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

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

The other conditions applicable shall be :

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

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

Particulars	Provisioning Requirement	
If the revised DCCO is within one year from the original DCCO prescribed at the time of financial closure	*	0.25 percent
If the DCCO is extended beyond one year and upto two years from the original DCCO prescribed at the time of financial closure	Project loans restructured with effect from January 24, 2014 :	
	*	5.00 per cent –From the date of restructuring for 2 years
	Stock of Project loans classified as restructured as on January 23, 2014 :	
	-	2.75 per cent - with effect from March 31, 2014
	-	3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014- 15)
	-	4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015- 16)
	-	5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17).
*	The above provisions will be applicable from the date of restructuring for 2 years.	

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

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

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

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

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

- i) NBFCs may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;
- ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost. This ceiling is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations;
- iii) The Debt Equity Ratio as agreed at the time of initial financial closure shall remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio shall be acceptable to the lenders;
- iv) Disbursement of funds for cost overruns shall start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and
- v) All other terms and conditions of the loan shall remain unchanged or enhanced in favour of the lenders.

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5. Other Issues

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

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

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

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

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

(ii) Project Loans for Commercial Real Estate

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

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

3.6. Income recognition

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

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

Consequently, NBFCs which have wrongly recognised income in the past shall reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognised as income in the previous year(s). As regards the regulatory treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' NBFCs shall adopt the following:

(a) **Funded Interest:** Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring / rescheduling / renegotiation of terms of the loan agreement, shall be done strictly on cash basis, only on realisation and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognised as income, a provision for an equal amount shall also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognized as income, shall be fully provided for.

(b) **Conversion into equity, debentures or any other instrument:** The amount outstanding converted into other instruments shall normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision shall be made for the amount of income so recognised to offset the effect of such income recognition. Such provision shall be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments as per the valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified "current investment" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures shall be treated as NPA,

ab initio, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm shall also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income shall be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument shall be recognised only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan shall also be subject to the usual prudential valuation norms as applicable to such instruments.

4. General Principles and Prudential Norms for Restructured Advances

The principles and prudential norms laid down in this paragraph shall be applicable to all advances.

4.1 Eligibility criteria for restructuring of advances

4.1.1 NBFCs may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.

4.1.2 NBFCs cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms shall continue to apply. The process of re- classification of an asset shall not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority shall be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it shall be a matter of supervisory concern.

4.1.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the NBFC in deserving cases subject to customer agreeing to the terms and conditions.

4.1.4 No account shall be taken up for restructuring by the NBFCs unless the financial viability is established and there is a reasonable certainty of repayment from

the borrower, as per the terms of restructuring package. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by NBFCs shall be treated as an attempt at ever greening a weak credit facility and shall invite supervisory concerns / action. NBFCs shall accelerate the recovery measures in respect of such accounts. The viability shall be determined by the NBFCs based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters can include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. As different sectors of economy have different performance indicators, it shall be desirable that NBFCs adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability shall be determined by the NBFCs based on the acceptable viability parameters and benchmarks for each parameter determined by them. The benchmarks for the viability parameters adopted by the CDR Mechanism are given in the Appendix-1. NBFCs shall suitably adopt them with appropriate adjustments, if any, for specific sectors while restructuring of accounts in non-CDR cases.

4.1.5 Borrowers indulging in frauds and malfeasance shall continue to remain ineligible for restructuring.

4.1.6 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism, the lead bank in the case of SME Debt Restructuring Mechanism and the individual NBFCs in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

4.2 **Asset classification norms**

Restructuring of advances shall take place in the following stages:

- (a) before commencement of commercial production / operation;
- (b) after commencement of commercial production / operation but before the asset has been classified as 'sub-standard';
- (c) after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

4.2.1 The accounts classified as 'standard assets' shall be immediately reclassified as 'sub-standard assets' upon restructuring.

4.2.2 The non-performing assets, upon restructuring, shall continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

4.2.3 Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the NBFC shall be upgraded only when all the outstanding loan / facilities in the account perform satisfactorily during the 'specified period' (Appendix - 2), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

4.2.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account shall be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

4.2.5 Any additional finance shall be treated as 'standard asset' during the specified period (Appendix - 2) under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'substandard' and 'doubtful', interest income on the additional finance shall be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

4.2.6 If a restructured asset, which is a standard asset on restructuring is subjected to restructuring on a subsequent occasion, it shall be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion shall be allowed to be upgraded to

standard category after the specified period (Appendix - 2) in terms of the current restructuring package, subject to satisfactory performance.

4.3 Income recognition norms

Subject to provisions of paragraphs 4.2.5, 5.2 and 6.2, interest income in respect of restructured accounts classified as 'standard assets' shall be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' shall be recognized on cash basis.

4.4 Provisioning norms

4.4.1 Provision on restructured advances

(i) NBFCs shall hold provision against the restructured advances as per the extant provisioning norms.

(ii) Restructured accounts classified as standard advances shall attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest / principal after restructuring, such advances shall attract the prescribed higher provision for the period covering moratorium and two years thereafter.

(iii) Restructured accounts classified as non-performing advances, when upgraded to standard category shall attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

(iv) The above-mentioned higher provision on restructured standard advances shall be 5 per cent in respect of new restructured standard accounts (flow) with effect from January 24, 2014 and increase in a phased manner for the stock of restructured standard accounts as on January 23, 2014 as under :

- * 2.75 per cent - with effect from March 31, 2014
- * 3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15)
- * 4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015-16)
- * 5 percent - with effect from March 31, 2017 (spread over the four quarters of 2016-17)

4.4.2 Provision for diminution in the fair value of restructured advances

(i) Reduction in the rate of interest and / or rescheduling of the repayment of principal amount, as part of the restructuring, shall result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the NBFC and shall have impact on the NBFC's market value. It is, therefore, necessary for NBFCs to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision shall be held in addition to the provisions as per existing provisioning norms as indicated in para 4.4.1 above, and in an account distinct from that for normal provisions.

For this purpose, the erosion in the fair value of the advance shall be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate i.e. the interest rate applicable to the borrower as per the loan agreement had the loan been serviced without any default, as applicable to the concerned borrower, as on the date of restructuring. Fair value of the loan after restructuring shall be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate as applicable to the borrower as on the date of restructuring.

The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and shall have to be followed consistently by NBFCs in future. Further, it is reiterated that the provisions required as above arise due to the action of the NBFCs resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

(ii) The amount of principal converted into debt / equity instruments on restructuring shall be held under 'current investments' and valued as per usual valuation norms. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt / equity has to

be carried out separately. However, the total sacrifice involved for the NBFC would be NPV of the above portion plus valuation loss on account of conversion into debt / equity instruments.

NBFCs are therefore advised that they shall correctly capture the diminution in fair value of restructured accounts as it shall have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters (Ref. para 7.2.2.iv). Further, there must not be any effort on the part of NBFCs to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering. NBFCs shall put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

(iii) In the event any security is taken in lieu of the diminution in the fair value of the advance, it shall be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

(iv) The diminution in the fair value shall be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in the bare lending rate as applicable to the borrower. Consequently, NBFCs shall provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(i) If due to lack of expertise / appropriate infrastructure, an NBFC finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, NBFCs shall have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five percent of the total exposure, in respect of all restructured accounts where the total dues to NBFC(s) are less than rupees one crore.

4.4.3 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

5. Prudential Norms for Conversion of Principal into Debt / Equity

5.1 Asset classification norms

A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt / equity instruments so created shall be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of these instruments shall also be determined based on the subsequent asset classification of the restructured advance.

5.2 Income recognition norms

5.2.1 *Standard Accounts*

In the case of restructured accounts classified as 'standard', the income, if any, generated by these instruments shall be recognised on accrual basis.

5.2.2 *Non- Performing Accounts*

In the case of restructured accounts classified as non-performing assets, the income, if any, generated by these instruments shall be recognised only on cash basis.

5.3 Valuation and provisioning norms

These instruments shall be held under 'current investments' and valued as per usual valuation norms. Equity classified as standard asset shall be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available, the shares are to be valued at Re.1. Equity instrument classified as NPA shall be valued at market value, if quoted, and in case where equity is not quoted, it shall be valued at Re.1. Depreciation on these instruments shall not be offset against the appreciation in any other securities held under the 'current investment' category.

6. Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

6.1 Asset classification norms

The FITL / debt or equity instrument created by conversion of unpaid interest shall be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL / debt or equity instruments shall also be determined based on the subsequent asset classification of the restructured advance.

6.2 Income recognition norms

6.2.1 The income, if any, generated by these instruments shall be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.

6.2.2 The unrealised income represented by FITL / Debt or equity instrument shall have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalisation)".

6.2.3 In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation, not exceeding the amount of interest converted into equity.

6.2.4 Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received shall be recognised in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

6.3 Valuation & Provisioning norms

Valuation and provisioning norms shall be as per para 5.3 above. The depreciation, if any, on valuation shall be charged to the Sundry Liabilities (Interest Capitalisation) Account.

7. Miscellaneous

Following general conditions shall be applicable in all cases of restructuring:

7.1 The NBFCs shall decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the NBFCs shall have the right to

convert a portion of the restructured amount into equity, keeping in view the relevant SEBI regulations.

7.2 Conversion of debt into preference shares shall be done only as a last resort and such conversion of debt into equity / preference shares shall, in any case, be restricted to a cap (say 10 per cent of the restructured debt). Further, any conversion of debt into equity shall be done only in the case of listed companies.

7.3 NBFCs may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to pre pay. Further, all restructuring packages must incorporate 'Right to recompense' clause and it shall be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount shall be recovered by the lenders and in cases where some facility under restructuring has been extended below bare lending rate, 100 per cent of the recompense amount shall be recovered.

7.4 As stipulating personal guarantee will ensure promoters' "skin in the game" or commitment to the restructuring package, promoters' personal guarantee shall be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.

7.5 All restructuring packages shall be required to be implemented in a time bound manner. All restructuring packages under CDR / JLF / Consortium / MBA arrangement shall be implemented within 90 days from the date of approval. Other restructuring packages shall be implemented within 120 days from the date of receipt of application by the NBFC.

7.6 Promoters must bring additional funds in all cases of restructuring. Additional funds brought by promoters shall be a minimum of 20 per cent of NBFCs' sacrifice or 2 per cent of the restructured debt, whichever is higher. The promoters' contribution shall invariably be brought upfront while extending the restructuring benefits to the borrowers. Promoter's contribution need not necessarily be brought in cash and can be brought in the form of conversion of unsecured loan from the promoters into equity;

7.7 NBFCs shall determine a reasonable time period during which the account is likely to become viable, based on the cash flow and the Techno Economic Viability (TEV) study;

7.8 NBFCs shall be satisfied that the post restructuring repayment period is reasonable, and commensurate with the estimated cash flows and required DSCR in the account as per their own Board approved policy.

7.9 Each NBFC shall clearly document its own due diligence done in assessing the TEV and the viability of the assumptions underlying the restructured repayment terms.

8. Disclosures

With effect from the financial year ending March 2014 NBFCs shall disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances as per the format given in Appendix - 4. The information shall be required for advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories separately. NBFCs must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means even if only one of the facilities / accounts of a borrower has been restructured, the NBFC shall also disclose the entire outstanding amount pertaining to all the facilities / accounts of that particular borrower. The disclosure format prescribed in Appendix - 4, inter-alia, includes the following:

- i. details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);
- ii. provisions made on restructured accounts under various categories; and
- iii. details of movement of restructured accounts.

This implies that once the higher provisions on restructured advances (classified as standard either ab initio or on upgradation from NPA category) revert to the normal level on account of satisfactory performance during the prescribed period, such advances shall no longer be required to be disclosed by NBFCs as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, the

provision for diminution in the fair value of restructured accounts on such restructured accounts shall continue to be maintained by NBFCs as per the existing instructions.

9. The CDR Mechanism will also be available to the corporates engaged in nonindustrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, NBFCs are also encouraged to strengthen the coordination among themselves / creditors in the matter of restructuring of consortium / multiple lending accounts, which are not covered under the CDR Mechanism.

It has been reiterated that the basic objective of restructuring is to preserve economic value of units, not ever-greening of problem accounts. This can be achieved by NBFCs and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages.

Broad Benchmarks for the Viability Parameters

- i. Return on capital employed shall be at least equivalent to 5 year Government security yield plus 2 per cent.
- ii. The debt service coverage ratio shall be greater than 1.25 within the 5 years period in which the unit shall become viable and on year to year basis the ratio shall be above 1. The normal debt service coverage ratio for 10 years repayment period shall be around 1.33.
- iii. The benchmark gap between internal rate of return and cost of capital shall be at least 1per cent.
- iv. Operating and cash break even points shall be worked out and they shall be comparable with the industry norms.
- v. Trends of the company based on historical data and future projections shall be comparable with the industry. Thus behaviour of past and future EBIDTA shall be studied and compared with industry average.
- vi. Loan life ratio (LLR), as defined below shall be 1.4, which would give a cushion of 40% to the amount of loan to be serviced.

$$\text{LLR} = \frac{\text{Present value of total available cash flow (ACF) during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

Key Concepts

(i) Advances

The term 'Advances' shall mean all kinds of credit facilities including, term loans, bills discounted / purchased, factored receivables, etc. and investments other than that in the nature of equity.

(ii) Fully Secured

When the amounts due to an NBFC (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the NBFC's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities shall be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees shall be treated on par with tangible security.

(iii) Restructured Accounts

A restructured account is one where the NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the NBFC would not otherwise consider. Restructuring shall normally involve modification of terms of the advances / securities, which shall generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly shall not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, shall render the accounts to be classified as 'restructured accounts'.

In the cases of roll-over of short term loans, where proper pre-sanction assessment has been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these shall not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then

third roll-over onwards the account shall be treated as a restructured account. Besides, NBFCs must be circumspect while granting such facilities as the borrower may be availing similar facilities from other banks / creditors in the consortium or under multiple banking. Further, Short Term Loans for the purpose of this provision do not include properly assessed regular Working Capital Loans like revolving Cash Credit or Working Capital Demand Loans.

(iv) Repeatedly Restructured Accounts

When an NBFC restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

(v) SMEs

Small and Medium Enterprise (SME) is an undertaking defined in [circular RPCD.PLNFS.BC.No.63.06.02/2006-07 dated April 4, 2007](#) amended from time to time.

(vi) Specified Period

Specified Period means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

(vii) Satisfactory Performance

Satisfactory performance during the specified period means adherence to the following conditions during that period.

Non-Agricultural Term Loan Accounts

In the case of non-agricultural term loan accounts, no payment shall remain overdue for a period of more than the number of days after which it would be classified as NPA. In addition there shall not be any overdues at the end of the specified period.

Note

- (i) While extending repayment period in respect of housing loans to keep the EMI unchanged, NBFCs shall satisfy themselves about the revenue generation / repaying capacity of the borrower during the entire repayment period including the extended repayment period.

(ii) NBFCs shall not extend the repayment period of such borrowers where they have concerns regarding the repaying capacity over the extended period, even if the borrowers want to extend the tenor to keep the EMI unchanged.

(iii) NBFCs shall provide the option of higher EMI to such borrowers who want to repay the housing loan as per the original repayment period.

Organisational Framework for Restructuring of Advances Under Consortium / Multiple Banking / Syndication Arrangements

A. Corporate Debt Restructuring (CDR) Mechanism

1.1 Objective

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework shall aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

1.2 Scope

The CDR Mechanism has been designed to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank / Financial Institution (FI) in a coordinated manner. The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one bank / FI. This mechanism shall be available to all borrowers engaged in any type of activity subject to the following conditions:

- a) The borrowers enjoy credit facilities from more than one bank / FI under multiple banking / syndication / consortium system of lending.
- b) The total outstanding (fund-based and non-fund based) exposure is ₹ 10 crore or above.

CDR system in the country shall have a three tier structure :

- CDR Standing Forum and its Core Group
- CDR Empowered Group
- CDR Cell

2. CDR Standing Forum

2.1 The CDR Standing Forum shall be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks shall participate in the system in their own interest. CDR Standing Forum shall be a self empowered body, which shall lay down policies and guidelines, and monitor the progress of corporate debt restructuring.

2.2 The Forum shall also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

2.3 The CDR Standing Forum shall comprise of Chairman & Managing Director, Industrial Development Bank of India Ltd; Chairman, State Bank of India; Managing Director & CEO, ICICI Bank Limited; Chairman, Indian Banks' Association as well as Chairman and Managing Directors of all banks and financial institutions participating as permanent members in the system. Since institutions like Unit Trust of India, General Insurance Corporation, Life Insurance Corporation may have assumed exposures on certain borrowers, these institutions may participate in the CDR system. The Forum will elect its Chairman for a period of one year and the principle of rotation shall be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum. The RBI shall not be a member of the CDR Standing Forum and Core Group. Its role shall be confined to providing broad guidelines.

2.4 The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum shall also lay down the policies and guidelines including those relating to the critical parameters for restructuring (for example, maximum period for a unit to become viable under a restructuring package, minimum level of promoters' sacrifice etc.) to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and shall ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell. The CDR Standing Forum shall also formulate guidelines for dispensing special treatment to those cases, which are complicated and are likely to be delayed beyond the time frame prescribed for processing.

2.5 A CDR Core Group shall be carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group shall consist of Chief Executives of Industrial Development Bank of India Ltd., State Bank of India, ICICI Bank Ltd, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks' Association and Deputy Chairman of Indian Banks' Association representing foreign banks in India.

2.6 The CDR Core Group shall lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. These guidelines shall also suitably address the operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group shall also prescribe the PERT chart for processing of cases referred to the CDR system and decide on the modalities for enforcement of the time frame. The CDR Core Group shall also lay down guidelines to ensure that over-optimistic projections are not assumed while preparing / approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports / international cost competitiveness.

3. CDR Empowered Group

3.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. While the standing members shall facilitate the conduct of the Group's meetings, voting shall be in proportion to the exposure of the creditors only. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it shall have to be ensured that participating institutions / banks approve a panel of senior officers to represent them in the CDR Empowered Group and ensure that they depute officials only from among the panel to attend the meetings of CDR Empowered Group. Further, nominees who attend the meeting pertaining to one account shall invariably attend all the meetings pertaining to that account instead of deputing their representatives.

3.2 The level of representation of banks / financial institutions on the CDR Empowered Group shall be at a sufficiently senior level to ensure that concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring. There shall be a general authorisation by the respective Boards of the participating institutions / banks in favour of their representatives on the CDR Empowered Group, authorising them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporates.

3.3 The CDR Empowered Group shall consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package shall be worked out by the CDR Cell in conjunction with the Lead Institution. However, if the lead institution faces difficulties in working out the detailed restructuring package, the participating banks / financial institutions shall decide upon the alternate institution / bank which shall work out the detailed restructuring package at the first meeting of the Empowered Group when the preliminary report of the CDR Cell comes up for consideration.

3.4 The CDR Empowered Group shall be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the Empowered Group. The CDR Empowered Group shall decide on the acceptable viability benchmark levels on the following illustrative parameters, which shall be applied on a case-by-case basis, based on the merits of each case :

- Return on Capital Employed (ROCE),
- Debt Service Coverage Ratio (DSCR),
- Gap between the Internal Rate of Return (IRR) and the Cost of Fund (CoF),
- Extent of sacrifice.

3.5 The Board of each bank / FI shall authorise its Chief Executive Officer (CEO) and / or Executive Director (ED) to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs. CDR Empowered Group shall meet on two or three occasions in respect of each borrowal account. This shall provide an opportunity to the participating members to seek proper authorisations from their CEO / ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him / her.

3.6 The decisions of the CDR Empowered Group shall be final. If restructuring of debt is found to be viable and feasible and approved by the Empowered Group, the company shall be put on the restructuring mode. If restructuring is not found viable,

the creditors shall then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

4. CDR Cell

4.1 The CDR Standing Forum and the CDR Empowered Group shall be assisted by a CDR Cell in all their functions. The CDR Cell shall make the initial scrutiny of the proposals received from borrowers / creditors, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible. If found feasible, the CDR Cell shall proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.

4.2 All references for corporate debt restructuring by creditors or borrowers shall be made to the CDR Cell. It shall be the responsibility of the lead institution / major stakeholder to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month. The CDR Cell shall prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days. However, for sufficient reasons the period can be extended up to a maximum of 180 days from the date of reference to the CDR Cell.

4.3 The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd. However, it may be shifted to another place if considered necessary, as shall be decided by the Standing Forum. The administrative and other costs shall be shared by all financial institutions and banks. The sharing pattern shall be as determined by the Standing Forum.

4.4 CDR Cell shall have adequate members of staff deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The cost in operating the CDR mechanism including CDR Cell shall be met from contribution of the financial institutions and banks in the Core Group at the rate of ₹ 50 lakh each and contribution from other institutions and banks at the rate of ₹ 5 lakh each.

5. Other features

5.1 Eligibility criteria

5.1.1 The scheme shall not apply to accounts involving only one financial institution or one bank. The CDR mechanism shall cover only multiple banking accounts / syndication / consortium accounts of corporate borrowers engaged in any type of activity with outstanding fund-based and non-fund based exposure of ₹ 10 crore and above by banks and institutions.

5.1.2 The Category 1 CDR system shall be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard' / 'substandard' in the books of at least 90% 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% of creditors. There shall be no requirement of the account / company being sick, NPA or being in default for a specified period before reference to the CDR system. However, potentially viable cases of NPAs will get priority. This approach shall provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent.

5.1.3 While corporates indulging in frauds and malfeasance even in a single bank shall continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group shall review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases shall be admitted for restructuring with the approval of the Core Group only. The Core Group shall ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

With a view to preserve the economic value of viable accounts, it has been decided that in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, NBFCs and JLF shall take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal

action against the erstwhile promoters / management. Further, such accounts shall also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in [Circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015](#) on "Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)". Each NBFC shall formulate its policy and requirements as approved by the Board, on restructuring of such assets.

5.1.4 The accounts where recovery suits have been filed by the creditors against the company, shall be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% 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% share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

5.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks / FIs shall review all eligible cases where the exposure of the financial system is more than ₹ 100 crore and decide about referring the case to CDR system or to proceed under the new Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 or to file a suit in DRT etc.

5.3 Legal Basis

5.3.1 CDR is a non-statutory mechanism which is a voluntary system based on Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). The Debtor-

Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) shall provide the legal basis to the CDR mechanism. The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines. The ICA signed by the creditors shall be initially valid for a period of 3 years and subject to renewal for further periods of 3 years thereafter. The lenders in foreign currency outside the country are not a part of CDR system. Such creditors and also creditors like GIC, LIC, UTI, etc., who have not joined the CDR system, could join CDR mechanism of a particular corporate by signing transaction to transaction ICA, wherever they have exposure to such corporate.

5.3.2 The Inter-Creditor Agreement shall be a legally binding agreement amongst the creditors, with necessary enforcement and penal clauses, wherein the creditors shall commit themselves to abide by the various elements of CDR system. Further, the creditors shall agree that if 75 per cent of creditors by value and 60 per cent of the creditors by number, agree to a restructuring package of an existing debt (i.e., debt outstanding), the same shall be binding on the remaining creditors. Since Category 1 CDR Scheme covers only standard and substandard accounts, which in the opinion of 75 per cent of the creditors by value and 60 per cent of creditors by number, are likely to become performing after introduction of the CDR package, it is expected that all other creditors (i.e., those outside the minimum 75 per cent by value and 60 per cent by number) shall be willing to participate in the entire CDR package, including the agreed additional financing.

5.3.3 In order to improve effectiveness of the CDR mechanism a clause shall be incorporated in the loan agreements involving consortium / syndicate accounts whereby all creditors, including those which are not members of the CDR mechanism, agree to be bound by the terms of the restructuring package that shall be approved under the CDR mechanism, as and when restructuring may become necessary.

5.3.4 One of the most important elements of Debtor-Creditor Agreement shall be 'stand still' agreement binding for 90 days, or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still'

whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period, this shall be necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause shall be applicable only to any civil action either by the borrower or any lender against the other party and shall not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., shall be crystallised, provided the borrower is agreeable to such crystallisation. The borrower shall additionally undertake that during the stand-still period the documents shall stand extended for the purpose of limitation and also that it shall not approach any other authority for any relief and the directors of the borrowing company shall not resign from the Board of Directors during the stand-still period.

5.4 Sharing of Additional finance

5.4.1 Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. In case for any internal reason, any creditor (outside the minimum 75 per cent and 60 per cent) does not wish to commit additional financing, that creditor shall have an option in accordance with the provisions of para 5.6.

5.4.2 The providers of additional finance, whether existing creditors or new creditors, shall have a preferential claim, to be worked out under the restructuring package, over the providers of existing finance with respect to the cash flows out of recoveries, in respect of the additional exposure

5.5 Exit Option

5.5.1 As stated in para 5.4.1 a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance shall have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred

interest as mentioned above, without compounding, shall be payable along with the last instalment of the principal due to the creditor.

5.5.2 In addition, the exit option shall also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders shall be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

5.5.3 The lenders who wish to exit from the package shall have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which shall be decided mutually between the exiting lender and the taking over lender. The new lenders shall rank on par with the existing lenders for repayment and servicing of the dues since they have taken over the existing dues to the exiting lender.

5.5.4 In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS shall not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS shall be factored into the restructuring package.

5.6 Category 2 CDR System

5.6.1 There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions :

- (i) It shall not be binding on the creditors to take up additional financing worked out under the debt restructuring package and the decision to lend or not to lend shall depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing

loans shall only be restructured and it shall be up to the promoter to firm up additional financing arrangement with new or existing creditors individually.

(ii) All other norms under the CDR mechanism such as the standstill clause, asset classification status during the pendency of restructuring under CDR, etc., shall continue to be applicable to this category also.

5.6.2 No individual case shall be referred to RBI. CDR Core Group shall take a final decision whether a particular case falls under the CDR guidelines or it does not.

5.6.3 All the other features of the CDR system as applicable to the First Category shall also be applicable to cases restructured under the Second Category.

5.7 Incorporation of 'right to recompense' clause

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. All restructuring packages must incorporate 'Right to recompense' clause and it shall be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount shall be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount shall be recovered.

B SME Debt Restructuring Mechanism

Apart from CDR Mechanism, there exists a much simpler mechanism for restructuring of loans availed by Small and Medium Enterprises (SMEs). Unlike in the case of CDR Mechanism, the operational rules of the mechanism have been left to be formulated by the lender concerned. This mechanism shall be applicable to all the borrowers which have funded and non-funded outstanding up to ₹ 10 crore under multiple / consortium banking arrangement. Major elements of this arrangements are as under:

(i) Under this mechanism, the lender shall formulate, with the approval of their Board of Directors, a debt restructuring scheme for SMEs within the prudential norms laid down by RBI. The lender shall frame different sets of policies for borrowers belonging to different sectors within the SME if they so desire.

- (ii) While framing the scheme, the lender shall ensure that the scheme is simple to comprehend and shall, at the minimum, include parameters indicated in these guidelines.
- (iii) The main plank of the scheme is that the lender with the maximum outstanding shall work out the restructuring package, along with the lender having the second largest share.
- (iv) The lender shall work out the restructuring package and implement the same within a maximum period of 90 days from date of receipt of requests.
- (v) The SME Debt Restructuring Mechanism shall be available to all borrowers engaged in any type of activity.
- (vi) Lenders shall review the progress in rehabilitation and restructuring of SMEs accounts on a quarterly basis and keep the Board informed.

Disclosure of Restructured Accounts

Sl. No.	Type of Restructuring		Under CDR Mechanism				Under SME Debt Restructuring Mechanism				Others				Total			
	Asset Classification		S t a n d a r d	S u b - S t a n d a r d	D e b t	L o a n s	T o t a l	S t a n d a r d	S u b - S t a n d a r d	D e b t	L o a n s	T o t a l	S t a n d a r d	S u b - S t a n d a r d	D e b t	L o a n s	T o t a l	
	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	No. of borrowers																
		Amount																

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

1. The long tenor loans to infrastructure / core industries projects, say 25 years, shall be structured as under:

i. The fundamental viability of the project shall be established on the basis of all requisite financial and non-financial parameters, especially the acceptable level of interest coverage ratio (EBIDTA / Interest payout), indicating capacity to service the loan and ability to repay over the tenor of the loan;

ii. Allowing longer tenor amortisation of the loan (Amortisation Schedule), say 25 years (within the useful life / concession period of the project) with periodic refinancing (Refinancing Debt Facility) of balance debt, the tenor of which shall be fixed at the time of each refinancing, within the overall amortisation period;

iii. This shall mean that the NBFC, while assessing the viability of the project, would be allowed to accept the project as a viable project where the average debt service coverage ratio (DSCR) and other financial and non-financial parameters are acceptable over a longer amortisation period of say 25 years (Amortisation Schedule), but provide funding (Initial Debt Facility) for only, say, 5 years with refinancing of balance debt being allowed by existing or new lenders (Refinancing Debt Facility) or even through bonds; and

iv. The refinancing (Refinancing Debt Facility) after each of these 5 years shall be of the reduced amounts determined as per the Original Amortisation Schedule.

2. NBFC shall finance fresh long term projects in infrastructure and core industries as suggested in paragraph 1 above provided that:

i. Only term loans to infrastructure projects, as defined under the Harmonised Master List of Infrastructure of RBI, and projects in core industries sector, included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India, (viz., coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel (Alloy + Non Alloy), cement and electricity - some of these sectors such as fertilisers, electricity generation, distribution and transmission, etc. are also included in the Harmonised Master List of Infrastructure sub-sectors) - shall qualify for such refinancing;

- ii. At the time of initial appraisal of such projects, NBFC shall fix an amortisation schedule (Original Amortisation Schedule) while ensuring that the cash flows from such projects and all necessary financial and non-financial parameters are robust even under stress scenarios;
- iii. The tenor of the Amortisation Schedule shall not be more than 80% (leaving a tail of 20%) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80% 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% of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects;
- iv. The NBFC offering the Initial Debt Facility shall sanction the loan for a medium term, say 5 to 7 years. This is to take care of initial construction period and also cover the period at least up to the date of commencement of commercial operations (DCCO) and revenue ramp up. The repayment(s) at the end of this period (equal in present value to the remaining residual payments corresponding to the Original Amortisation Schedule) shall be structured as a bullet repayment, with the intent specified up front that it shall be refinanced. That repayment shall be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as Refinancing Debt Facility, and such refinancing shall repeat till the end of the Amortisation Schedule;
- v. The repayment schedules of Initial Debt Facility shall normally correspond to the Original Amortisation Schedule, unless there is an extension of DCCO. In that case, in terms of extant instructions contained in [DNBS.CO.PD.No.367/03.10.01/2013-14, dated January 23, 2014](#) and [DNBR.CO.PD.No.011/03.10.01/2014-15, dated January 16, 2015](#), mere extension of DCCO shall not be considered as restructuring subject to certain conditions, if the revised DCCO falls within the period of two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively. In such cases the consequential shift in repayment schedule by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO shall also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged or are enhanced to compensate for the delay and the entire project debt amortisation is

scheduled within 85% (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% (refer note 2 below) of the economic life of the project as prescribed in paragraph 2 (iii) above;

vii. If the Initial Debt Facility or Refinancing Debt Facility becomes NPA at any stage, further refinancing shall stop and the NBFC which holds the loan when it becomes NPA, shall be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it shall be eligible for refinancing in terms of these instructions;

viii. NBFCs shall determine the pricing of the loans at each stage of sanction of the Initial Debt Facility or Refinancing Debt Facility, commensurate with the risk at each phase of the loan, and such pricing shall be as per the rate approved by its Board;

ix. NBFCs shall secure their interest by way of proper documentation and security creation, etc.;

x. NBFCs shall be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs shall be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

xi. NBFCs shall recognise from a risk management perspective that there will be a probability that the loan shall not be refinanced by other NBFCs/lenders, and shall take this into account when estimating liquidity needs as well as stress scenarios. Further, unless the part or full refinancing by other NBFCs/lenders is clearly identified, the cash flows from such refinancing shall not be taken into account for computing liquidity ratios. Similarly, once committed, the refinancing NBFC/lender shall take into account such cash flows for computing their liquidity ratios; and

xii. NBFCs shall have a Board approved policy for such financing.

3. Further, NBFCs may also flexibly structure the existing project loans to infrastructure projects and core industries projects with the option to periodically refinance the same as per the norms given below:

i) Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds ₹ 500 crore, in the infrastructure sector (as defined under the Harmonised Master List of Infrastructure of RBI) and in the core industries sector (included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India) shall qualify for such flexible structuring and refinancing;

ii) NBFCs shall fix a Fresh Loan Amortisation Schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

a. The loan is a standard loan as on the date of change of Loan Amortisation Schedule;

b. Net present value of the loan remains same before and after the change in Loan Amortisation Schedule;

c. The Fresh Loan Amortisation Schedule shall be within 85 per cent (leaving a tail of 15 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and

d. The viability of the project is reassessed by the NBFC and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy dated March 21, 2014.

iii) If a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para 3(ii) above, while the current exercise of fixing the Fresh Loan Amortisation Schedule shall not be treated as an event of 'repeated restructuring', the loan shall continue to be classified as 'restructured standard' asset. Upgradation of such assets shall be governed by the

extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

iv) Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule shall be governed by the extant restructuring norms;

v) NBFCs may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) shall be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance shall be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as refinancing debt facility, and such refinancing shall repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at paragraph 3(ii) shall not be applicable at the time of periodic refinancing of the project term loan;

vi) If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing shall stop and the NBFC which holds the loan when it becomes NPA shall be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it shall be eligible for refinancing in terms of these instructions;

vii) NBFCs shall determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing shall be as per the rate approved by the Board;

viii) NBFCs shall secure their interest by way of proper documentation and security creation, etc.;

ix) NBFCs shall be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, NBFCs shall be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

x) NBFCs shall recognise from a risk management perspective that there shall be a probability that the loan shall not be refinanced by other lenders, and shall take this into account when estimating liquidity needs as well as stress scenarios; and

xi) NBFCs shall have a Board approved policy for such financing.

4. It is clarified that NBFCs may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'NPAs'. However, such an exercise shall be treated as 'restructuring' and the assets shall continue to be treated as 'NPA'. Such accounts shall be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility shall be permitted only when the account is classified as 'standard' as prescribed in the para 3(vi) above.

5. It is reiterated that the exercise of flexible structuring and refinancing shall be carried out only after DCCO. Further, one of the conditions (para 7.2.2. (iii) of Annex-2 of [Notification No.DNBS\(PD\). No.272/CGM\(NSV\)-2014, dated January 23, 2014](#), viz., "The repayment period of the restructured advance including the moratorium, if any, shall not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.") for availing special asset benefits under restructuring guidelines shall cease to be applicable on any loan to infrastructure and core industries project covered under the ambit of this circular.

6. RBI will review these instructions at periodic intervals.

Notes:

1 A relaxation of only 5% of initial economic life is provided in case of delay in achieving DCCO from the 80% ceiling of amortisation of project debt prescribed in paragraph 2(iii). NBFCs may factor the same while determining Original Amortisation Schedule

2 Refer to Foot Note 1 above

Calculation of CRAR after making provisions on AP portfolio

Provisions made and the AP portfolio added back and gradually reduced								
Year	Loss on account of provisions	Capital	Provisions Added back	Net Capital (3+4)	Required Capital (@15%)	Capital infusion required	Non-AP	AP
1	2	3	4	5	6	7	8	9
Initial Position	0				30		100	100
2012-13	-100	-70	100	30	30	0	100	100
2013-14		-70	80	10	27	17	100	80
2014-15		-53	60	7	24	17	100	60
2015-16		-36	40	4	21	17	100	40
2016-17		-19	20	1	18	17	100	20
2017-18		-2	0	-2	15	17	100	0
2018-19		15	0	15	15	0	100	0
					Total	85		

For the sake of simplicity, the above illustration is based on a few assumptions as given below :

- a) The AP portfolio comprises 50% of total portfolio of the NBFC-MFI.
- b) The entire AP portfolio is taken as loss asset
- c) The portfolios have remained stagnant over the next five years.

Self – Regulatory Organization (SRO) for NBFC-MFIs – Criteria for Recognition

- i. The SRO shall have at least 1/3rd of the NBFC-MFIs registered as its members, at the time of recognition.
- ii. It shall have adequate capital to be able to discharge its functions without being overly dependent on subscription from members.
- iii. The memorandum / bye laws of the Self-Regulatory Organization (SRO) shall specify criteria for admission of members and the functions it shall discharge, as one of its main objects;
- iv. 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.
- v. The Board shall have adequate representation from both large and small NBFC-MFIs.
- vi. 1/3rd of the Board of Directors shall be independent and not associated with member institutions.
- vii. The Board of Directors and individuals comprising the management shall be considered fit and proper, by the Reserve Bank.
- viii. It shall have adequate internal controls in place.
- ix. The SRO shall function in the interest of all the stake holders and not seen to be only an industry body.
- x. The SRO shall frame a Code of Conduct to be followed by its members.
- xi. It shall have a Grievance Redressal Mechanism and a Dispute Resolution Mechanism in place, including a specially appointed Grievance Redressal Nodal Officer.
- xii. It shall be in a position to exercise surveillance over its members to ensure compliance with the Code of Conduct and regulatory prescriptions of the Bank through an Enforcement Committee
- xiii. It shall also have a developmental function of training and awareness programmes for its members, for the Self Help Groups and conduct research and development for the growth of the MFI sector

Obligations of the SRO towards the Reserve Bank

- i. The SRO, once recognized, shall need to nominate a Compliance officer who shall directly report to the Reserve Bank and who shall keep the Reserve Bank regularly posted of all developments in the sector.
- ii. The SRO shall have to submit its Annual Report to the Reserve Bank.
- iii. It shall have to conduct investigation into areas of concern as pointed out by the Reserve Bank.
- iv. The SRO shall inform the Reserve Bank of the violations of the provisions of the Act, the directions, the circulars or the guidelines issued by the Reserve Bank from time to time, by any of its members.
- v. It shall provide information, including data, to the Reserve Bank periodically or as requested for by the Bank.
- vi. The Reserve Bank shall, if need arises, inspect the books of the SRO or arrange to have the books inspected by an audit firm.

**INFORMATION ABOUT THE PROPOSED PROMOTERS / DIRECTORS
/SHAREHOLDERS OF THE COMPANY**

Sr. No.	Particulars Required	Response
1	Name	
2	Designation	Chairman / Managing Director / Director / Chief Executive Officer
3	Nationality	
4	Age (to be substantiated with date of birth)	
5	Business Address	
6	Residential Address	
7	E-mail address / Telephone number	
8	PAN Number under Income Tax Act	
9	Director Identification Number (DIN)	
10	Social security number / Passport No.*	
11	Educational / professional qualifications	
12	Professional Achievement relevant to the job	
13	Line of business or vocation	
14	Any other information relevant to the Company	
15	Name/s of other companies in which the person has held the post of Chairman / Managing Director/ Director / Chief Executive Officer	
16	Name/s of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator) of the entities mentioned in which the persons hold directorships	
17	Name/s of the NBFCs, if any, with which the person is associated as Promoter, Managing Director, Chairman or Director including a Residuary Non-Banking Financial Company, which has been prohibited from accepting deposits/ prosecuted by RBI ?	
18	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the person and/or against any of the entities he is associated with for violation of economic laws and regulations	
19	Cases, if any, where the person or relatives of the person or the companies in which the person is associated with, are in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	

20	If the person is a member of a professional association/ body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him / her or whether he / she has been banned from entry of any professional occupation at any time	
21	Whether the person attracts any of the disqualification envisaged under section 164 of the Companies Act, 2013	
22	Has the person or any of the companies, he/ she is associated with, been subject to any investigation at the instance of the Government Department or Agency	
23	Has the person at any time been found guilty of violations of rules / regulations / legislative requirements by Customs / Excise / Income Tax// Foreign Exchange / Other Revenue Authorities, if so, give particulars	
24	Experience in the business of NBFC (number of years)	
25	Equity shareholding in the company	
(i)	No. of shares
(ii)	Face value	₹.....
(iii)	Percentage to total paid up equity share capital of the company
26	Name/s of the companies, firms and proprietary concerns in which the person holds substantial interest	
27	Names of the principal bankers to the concerns at 26 above	
28	Names of the overseas bankers *	
29	Whether number of directorships held by the person exceeds the limits prescribed under section 165 of the Companies Act, 2013	
		Signature :
	Date :	Name :
	Place:	Designation :
		Company Seal :
<p>* For foreign promoters / directors / shareholders Note: (i) Separate form shall be submitted in respect of each of the proposed promoters/ directors/ shareholders</p>		

INFORMATION ABOUT CORPORATE PROMOTER

Sr. No.	Particulars Required	Response
1	Name	
2	Business Address	
3	E-mail address / Telephone number	
4	PAN Number under Income Tax Act	
5	Name and contact details of compliance officer	
6	Line of business	
7	The details of their major shareholders (more than 10%) and line of activity, if corporates	
8	Names of the principal bankers/ overseas bankers *	
9	Name/s of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator)	
10	Name/s of Company/ies in the Group as defined in the Prudential Norms Directions	
11	Name/s of the company/ies in the Group that are NBFCs	
12	Specify the names of companies in the group which have been prohibited from accepting deposits/ prosecuted by RBI?	
13	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the corporate for violation of economic laws and regulations	
14	Cases, if any, where the corporate, is in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
15	Whether the corporate has been subject to any investigation at the instance of the Government Department or Agency	
16	Has the Corporate at any time been found guilty of violations of rules/ regulations/ legislative requirements by Customs/ Excise/ Income Tax// Foreign Exchange/ Other Revenue Authorities, if so, give particulars	
17	Has the promoter corporate/ majority shareholder of the promoter corporate, if a corporate, ever applied to RBI for CoR which has been rejected	
		Signature :
	Date :	Name :
	Place:	Designation :
		Company Seal :
* For foreign corporate		

Guidelines for Entry of NBFCs into Insurance

1. NBFCs registered with the Bank shall undertake insurance agency business on fee basis and without risk participation, without the approval of the Bank, only subject to the following conditions:

(i) The NBFCs shall obtain requisite permission from IRDA and comply with the IRDA regulations for acting as 'composite corporate agent' with insurance companies.

(ii) The NBFCs shall not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the NBFC. The customers shall be allowed to exercise their own choice.

(iii) As the participation by an NBFC's customer in insurance products is purely on a voluntary basis, it shall be stated in all publicity material distributed by the NBFC in a prominent way. There shall be no 'linkage' either direct or indirect between the provision of financial services offered by the NBFC to its customers and use of the insurance products.

(iv) The premium shall be paid by the insured directly to the insurance company without routing through the NBFC.

(v) The risks, if any, involved in insurance agency shall not get transferred to the business of the NBFC.

2. No NBFC shall be allowed to conduct such business departmentally. A subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of a non-banking financial institution or banking business shall not normally be allowed to join the insurance company on risk participation basis.

3. All NBFCs registered with RBI which satisfy the eligibility criteria given below shall be permitted to set up a joint venture company for undertaking insurance business with risk participation subject to safeguards. The maximum equity contribution such an NBFC can hold in the joint venture company shall normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Bank may permit

a higher equity contribution by a promoter NBFC initially, pending divestment of equity within the prescribed period [see Note (1) below].

In case more than one company (irrespective of doing financial activity or not) in the same group of the NBFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 percent prescribed for the NBFC in an insurance JV.

In cases where IRDA issues calls for capital infusion into the Insurance JV company, the Bank may, on a case to case basis, consider need based relaxation of the 50% group limit as specified. The relaxation, if permitted, shall be subject to compliance by the NBFC with all regulatory conditions as prescribed for in these Directions and such other conditions as may be necessary in the specific case. Application for such relaxation along with supporting documents shall be submitted by the NBFC to the Regional Office of the Bank under whose jurisdiction its registered office is situated.

The eligibility criteria for joint venture participant shall be as stated below:

- (i) The owned fund of the NBFC shall not be less than ₹ 500 crore,
- (ii) The CRAR of the NBFC engaged in loan and investment activities holding public deposits shall be not less than 15% and for other NBFCs at 12% irrespective of their holding public deposits or not.
- (iii) The level of net non-performing assets shall be not more than 5% of the total outstanding leased/hire purchase assets and advances taken together,
- (iv) The NBFC shall have net profit for the last three continuous years,
- (v) The track record of the performance of the subsidiaries, if any, of the concerned NBFC shall be satisfactory,
- (vi) Regulatory compliance and servicing public deposits, if held.

The provisions of RBI Act shall be applicable for such investments while computing the net owned funds of the NBFC.

4. In case where a foreign partner contributes 26 per cent of the equity with the approval of insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one NBFC may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those NBFCs which satisfy the criteria given in paragraph 3 above, shall be eligible.

5. NBFCs registered with RBI which are not eligible as joint venture participant, as above can make investments up to 10 per cent of the owned fund of the NBFC or ₹ 50 crore, whichever is lower, in the insurance company . Such participation shall be treated as an investment and shall be without any contingent liability for the NBFC. The eligibility criteria for these NBFCs shall be as under:

(i) The CRAR of the NBFC (applicable only to those holding public deposits) shall not be less than 12 per cent if engaged in equipment leasing/hire purchase finance activities and 15 per cent if it is a loan or investment company ;

(ii) The level of net NPA shall be not more than 5 per cent of total outstanding leased/hire purchase assets and advances;

(iii) The NBFC shall have net profit for the last three continuous years.

Notes :

(1) Holding of equity by a promoter NBFC in an insurance company or participation in any form in insurance business shall be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

(2) The eligibility criteria shall be reckoned with reference to the latest available audited balance sheet for the previous year.

Guidelines on issue of Co-Branded Credit Cards

In order to strengthen the NBFC sector by allowing diversification of their area of business, it has been decided to allow NBFCs, selectively, registered with the Reserve Bank of India to issue co-branded credit cards with scheduled commercial banks, without risk sharing, with prior approval of the Reserve Bank, for an initial period of two years and a review thereafter. NBFCs fulfilling the following minimum requirements are eligible to apply for issuance of co-branded credit card:

- (i) Minimum net owned fund of ₹ 100 crore;
- (ii) The company shall have made net profit as per last two years audited accounts;
- (iii) The percentage of net NPAs to net advances of the NBFC as per the last audited balance sheet shall not be more than 3%;
- (iv) The non-deposit-taking NBFCs (NBFCs-ND) shall maintain a Leverage Ratio of 7. While systemically important non-deposit taking NBFCs (NBFCs-ND-SIs) and deposit taking NBFCs (NBFC-D) shall have CRAR of 15%.

2. In addition, the NBFCs shall be required to adhere to the following stipulations:

(i) Operational Aspects

- (a) The role of the NBFC under the tie-up arrangement shall be limited only to marketing and distribution of the co-branded credit cards. The co-branded credit card issuing bank shall be subject to all the instructions / guidelines issued by its concerned regulatory authority.
- (b) The co-branded credit card issuing bank shall be solely responsible for fulfillment of KYC requirements in respect of all co-branded cards issued under the tie-up arrangement.
- (c) The risks, if any, involved in co-branded credit cards business shall not get transferred to the business of the NBFC;
- (d) The co-branded credit card account shall be maintained by the customer with the bank and all the payments by the co-branded card holders shall be in the name of the bank; account if any maintained by the user with the NBFC shall not be debited for settlement of dues arising out of co-branded credit card;

(e) The NBFC entering into tie-up shall be guided by the need to ensure confidentiality of the customer's accounts. The co-branding NBFC shall not reveal any information relating to customers obtained at the time of opening the account and the co-branded credit card issuing bank shall not be permitted to access any details of customers' accounts that may violate NBFCs' secrecy obligations.

(f) The bank issuing the card shall put in place suitable mechanism for the redressal of customer grievances. Customer complaints arising out of deficiency in the credit card service shall be the responsibility of the bank.

(g) Legal risk, if any, arising out of court cases, damages, etc shall be borne by the issuing bank.

(ii) Other Aspects

(a) The NBFC shall have put in place guidelines on fair practices code as required in terms of these Directions;

(b) The NBFC shall be adhering to Know Your Customer Guidelines and provisions of Prevention of Money Laundering Act;

(c) The NBFC shall be complying with other instructions and provisions of RBI Act, 1934 to the extent applicable to the NBFC concerned;

(d) The NBFC shall comply with other terms and conditions as the Bank may specify in this behalf from time to time.

3. Further, the permission is liable to be withdrawn with a notice period of 3 months in the event of any undesirable / unhealthy operations coming to the notice of the Bank.

Guidelines on Distribution of Mutual Fund Products by NBFCs

1. NBFCs, which desire to distribute mutual funds, shall be required to adhere to the following stipulations:

(i) Operational Aspects

(a) The NBFC shall comply with the SEBI guidelines / regulations, including its code of conduct, for distribution of mutual fund products;

(b) the NBFC shall not adopt any restrictive practice of forcing its customers to go in for a particular mutual fund product sponsored by it. Its customers shall be allowed to exercise their own choice;

(c) the participation by the NBFCs customers in mutual fund products is purely on a voluntary basis and this information shall be stated in all publicity material distributed by it in a prominent way. There shall be no 'linkage' either direct or indirect between the provisions of financial services offered by the NBFC to its customers and distribution of the mutual fund products;

(d) the NBFC shall only act as an agent of its customers, forwarding their applications for purchase / sale of MF units together with the payment instruments, to the Mutual Fund / the Registrars / the transfer agents. The purchase of units shall be at the customers' risk and without the NBFC guaranteeing any assured return;

(e) the NBFC shall neither acquire units of mutual funds from the secondary market for sale to its customers, nor shall it buy back units of mutual funds from its customers;

(f) in case the NBFC is holding custody of MF units on behalf of its customers, it shall ensure that its own investments and the investments belonging to its customers are kept distinct from each other.

(ii) Other Aspects

(a) The NBFC shall have put in place a comprehensive Board approved policy regarding undertaking mutual funds distribution. The services relating to the same shall be offered to its customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal mechanism. The code of conduct prescribed by SEBI, as amended from

time to time and as applicable, shall be complied with by NBFCs undertaking these activities;

(b) the NBFC shall be adhering to Know Your Customer (KYC) Guidelines and provisions of Prevention of Money Laundering Act.

2. NBFCs shall comply with other terms and conditions as the Bank may specify in this regard from time to time.

Guidelines for Credit Default Swaps - NBFCs as users

Definitions The following definitions are used in these guidelines:

(i) Credit event payment – the amount which is payable by the credit protection seller to the credit protection buyer under the terms of the credit derivative contract following the occurrence of a credit event. The payment shall be only in the form of physical settlement (payment of par in exchange for physical delivery of a deliverable obligation).

(ii) Underlying asset / obligation – The asset² which a protection buyer is seeking to hedge. (iii) Deliverable asset / obligation – any obligation³ of the reference entity which shall be delivered, under the terms of the contract, if a credit event occurs. (Assets under (iii) above, will rank at least pari-passu or junior to the underlying obligation).

(iv) Reference obligation - the obligation⁴ used to calculate the amount payable when a credit event occurs under the terms of a credit derivative contract. [A reference obligation is relevant for obligations that are to be cash settled (on a par-less-recovery basis).]

2. Operational requirements for CDS

a) A CDS contract shall represent a direct claim on the protection seller and shall be explicitly referenced to specific exposure, so that the extent of the cover is clearly defined and incontrovertible.

b) Other than non-payment by a protection buyer of premium in respect of the credit protection contract, it shall be irrevocable.

c) There shall be no clause in the contract that shall allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.

d) The CDS contract shall be unconditional; there shall be no clause in the protection contract outside the direct control of the NBFC that could prevent the protection

² Please refer to paragraph 2.4 of the [circular IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011](#).

³ For the present, only deliverable obligation permitted in terms of guidelines on CDS vide [circular IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011](#).

⁴ Please refer to paragraph 2.4 of the [circular IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011](#).

seller from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

e) The credit events specified by the contracting parties shall at a minimum cover:

(i) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);

(ii) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and

(iii) restructuring of the underlying obligation (as contemplated in the guidelines on CDS issued vide [Circular No. IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011](#)) involving forgiveness or postponement of principal, interest or fees that results in a credit loss event;

(iv) when the restructuring of the underlying obligation is not covered by the CDS, but the other requirements in paragraph 2 are met, partial recognition of the CDS shall be allowed. If the amount of the CDS is less than or equal to the amount of the underlying obligation, 60% of the amount of the hedge can be recognised as covered. If the amount of the CDS is larger than that of the underlying obligation, then the amount of eligible hedge is capped at 60% of the amount of the underlying obligation.

f) If the CDS specifies deliverable obligations that are different from the underlying obligation, the resultant asset mismatch shall be governed under paragraph (j).

g) The CDS shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay⁵.

h) If the protection buyer's right/ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld.

⁵ 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.

i) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the sole responsibility of the protection seller. The protection buyer shall have the right/ability to inform the protection seller of the occurrence of a credit event.

j) A mismatch between the underlying obligation and the reference obligation or deliverable obligation is permissible if (1) the reference obligation or deliverable obligation ranks paripassu with or is junior to the underlying obligation, and (2) the underlying obligation and reference obligation or deliverable obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross default or cross-acceleration clauses are in place.

(k) A mismatch between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible if (1) the latter obligation ranks paripassu with or is junior to the underlying obligation, and (2) the underlying obligation and reference obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross-default or cross acceleration clauses are in place.

3. Treatment of exposures below materiality thresholds Materiality thresholds on payments below which no payment is made in the event of loss as per the CDS contract, are equivalent to retained first loss positions and shall be assigned risk weight of 667% ($1/0.15 \times 100$ as minimum CRAR requirement for NBFCs is 15%) for capital adequacy purpose by the protection buyer.

4. Prudential treatment post-credit event In case the credit event payment is not received within the period as stipulated in the CDS contract, the NBFC shall ignore the credit protection of the CDS and reckon the credit exposure on the underlying asset and maintain appropriate level of capital and provisions as warranted for the exposure. On receipt of the credit event payment, (a) the underlying asset shall be removed from the books if it has been delivered to the protection seller; or (b) the book value of the underlying asset shall be reduced to the extent of credit event payment received if the credit event payment does not fully cover the book value of

the underlying asset and appropriate provisions shall be maintained for the reduced value.

5. Capital Adequacy In terms of Non-Banking Financial Company –Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 risk weights for credit risk for corporate bonds held by NBFCs is 100%. A CDS contract creates a counterparty exposure on the protection seller on account of the credit event payment. In case of hedging of the cash position by CDS, the exposure shall be reckoned on the protection seller subject to the conditions mentioned in para 6 below. NBFCs shall calculate the counterparty credit risk charge for all bought CDS positions as the sum of the current mark-to-market value, (if positive and zero, if MTM is negative) and the potential future exposure.

6. Treatment of exposure to the protection seller

6.1 Exposure to the underlying asset in respect of the hedged exposure shall be deemed to have been substituted by exposure to the protection seller, if the following conditions are satisfied:

a. Operational requirements mentioned in para 2 are satisfied

b. There is no maturity mis-match between the underlying asset and the deliverable obligation. If this condition is not satisfied, then the amount of credit protection to be recognised shall be computed as indicated in paragraph 6.2 below. In all other cases the exposure shall be deemed to be on the underlying asset.

6.2 Risk weights as applicable to the underlying assets shall be applied for the unprotected portion of the exposure. The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset/ obligation and the deliverable asset / obligation with regard to asset or maturity. These are dealt with in detail in the following paragraphs.

6.3 Mismatches The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset/ obligation and the deliverable asset / obligation with regard to asset or maturity.

(i) Asset mismatches: Asset mismatch will arise if the underlying asset is different from the deliverable obligation. Protection shall be reckoned as

available to the NBFC only if the mismatched assets meet the requirements specified in paragraph 2 (j) above.

(ii) Maturity mismatches: The NBFC shall be eligible to reckon the amount of protection if the maturity of the credit derivative contract were to be equal to the maturity of the underlying asset. If, however, the maturity of the CDS contract is less than the maturity of the underlying asset, then it shall be construed as a maturity mismatch. In case of maturity mismatch the amount of protection shall be determined in the following manner:

a. If the residual maturity of the credit derivative product is less than three months no protection shall be recognized.

b. If the residual maturity of the credit derivative contract is three months or more protection proportional to the period for which it is available shall be recognised.

When there is a maturity mismatch the following adjustment shall be applied.
$$P_a = P \times (t - .25) \div (T - .25)$$
 Where: P_a = value of the credit protection adjusted for maturity mismatch P = credit protection t = min (T, residual maturity of the credit protection arrangement) expressed in years T = min (5, residual maturity of the underlying exposure) expressed in years Example: Suppose the underlying asset is a corporate bond of Face Value of ₹ 100 where the residual maturity is of 5 years and the residual maturity of the CDS is 4 years. The amount of credit protection is computed as under: $100 * \{(4-.25) \div (5-.25)\} = 100 * (3.75 \div 4.75) = 78.95$ c. Once the residual maturity of the CDS contract reaches three months, protection ceases to be recognised.

6.4 NBFCs as users shall adhere to all the criteria required for transferring the exposures fully to the protection seller in terms of paragraph 6.1 above on an on-going basis so as to qualify for exposure relief on the underlying asset. In case any of these criteria are not met subsequently, the NBFC shall have to reckon the exposure on the underlying asset. Therefore, NBFCs shall restrict the total exposure to an obligor including that covered by way of CDS within an internal exposure ceiling considered appropriate by the Board of the NBFC in such a way that it shall not breach the single / group borrower exposure limit prescribed by RBI. In case of the event of any breach in the single / group borrower exposure limit, the entire

exposure in excess of the limit will be risk weighted at 667%. In order to ensure that consequent upon such a treatment, the NBFC shall not breach the minimum capital requirement prescribed by RBI, it shall keep sufficient cushion in capital in case it assumes exposures in excess of normal exposure limit.

6.5 No netting of positive and negative marked-to-market values of the contracts with the same counterparty shall be allowed for the purpose of complying with the exposure norms.

7. General Provisions Requirements

For the CDS positions of NBFCs, they shall hold general provisions for gross positive marked-to-market values of the CDS contracts.

8. Reporting Requirement:

On a quarterly basis, NBFCs shall report “total exposure” in all cases where they have assumed exposures against borrowers in excess of the normal single / group exposure limits due to the credit protections obtained by them through CDS, guarantees or any other permitted instruments of credit risk transfer, to the Regional Office of Department of Non-Banking Supervision where they are registered.

9. NBFCs shall also disclose in their notes to accounts of balance sheet the details given in annex below:

Annex

Format of Disclosure to be made in the Annual Financial Statements

(₹ crore)		
1.	No. of transactions during the year	
2.	Amount of protection bought during the year	
3.	No. of transactions where credit event payment was received during the year	
	a) pertaining to current year's transactions	
	b) pertaining to previous year(s)' transactions	
4.	Outstanding transactions as on March 31	
	a) No. of Transactions	
	b) Amount of protection	

5.	Net income / profit (expenditure / loss) in respect of CDS transactions during year-to-date	
	a) premium paid	
	b) Credit event payments received (net of value of deliverable obligation).	

Guidelines on Securitisation Transactions

Section A

Guidelines on Securitisation of Standard Assets

1 Requirements to be met by the originating NBFCs

1.1 Assets Eligible for Securitisation

In a single securitisation transaction, the underlying assets shall represent the debt obligations of a homogeneous pool of obligors⁶. Subject to this condition, all on-balance sheet standard assets⁷ except the following, shall be eligible for securitisation by the originators :

- i) Revolving credit facilities (e.g., Credit Card receivables)
- ii) Assets purchased from other entities
- iii) Securitisation exposures (e.g. Mortgage-backed / asset-backed securities)
- iv) Loans with bullet repayment of both principal and interest⁸.

1.2 Minimum Holding Period (MHP)

1.2.1 Originating NBFCs shall securitise loans only after these have been held by them for a minimum period in their books. The criteria governing determination of MHP for assets listed below reflect the need to ensure that :

- * the project implementation risk is not passed on to the investors, and
- * a minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards

1.2.2 NBFCs shall securitise loans only after a MHP counted from the date of full disbursement of loans for an activity / purpose; acquisition of asset (i.e., car, residential house etc.) by the borrower or the date of completion of a project, as the case may be. MHP shall be defined with reference to the number of instalments to be paid prior to securitisation. MHP applicable to various loans depending upon the tenor and repayment frequency is given in the following table⁹.

⁶The single asset securitisations do not involve any credit tranching and redistribution of risk, and therefore, are not consistent with the economic objectives of securitisation.

⁷In these guidelines the term loans / assets have been used to refer to loans, advances and bonds which are in the nature of advances

⁸Trade receivables with tenor up to 12 months discounted / purchased by NBFCs from their borrowers will be eligible for securitisation. However, only those loans / receivables will be eligible for securitisation where a drawee of the bill has fully repaid the entire amount of last two loans / receivables within 180 days of the due date.

⁹Where the repayment is at more than quarterly intervals, loans can be securitised after repayment of at-least two instalments.

Minimum Holding Period				
	Minimum number of instalments to be paid before securitisation			
	Repayment frequency - Weekly	Repayment frequency - Fortnightly	Repayment frequency - Monthly	Repayment frequency - Quarterly
Loans with original maturity up to 2 years	Twelve	Six	Three	Two
Loans with original maturity of more than 2 years and up to 5 years	Eighteen	Nine	Six	Three
Loans with original maturity of more than 5 years	-	-	Twelve	Four

1.2.3 The MHP shall be applicable to individual loans in the pool of securitised loans. MHP shall not be applicable to loans referred to in foot note 8 of para 1.1.

1.3 Minimum Retention Requirement (MRR)

1.3.1 The MRR is primarily designed to ensure that the originating NBFCs have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitised. In the case of long term loans, the MRR shall also include a vertical tranche of securitised paper in addition to the equity / subordinate tranche, to ensure that the originating NBFCs have stake in the performance of securitised assets for the entire life of the securitisation process.

The originating NBFCs shall adhere to the MRR detailed in the Table below while securitising loans :

Minimum Retention Requirements at the Time of Securitisation				
Type of Loan	MRR	Description of MRR		
Loans with original maturity of 24 months or less	5% of the book value of the loans being securitised	i)	Where securitisation involves neither credit tranching nor any first loss credit enhancement by originators	Investment in the securities issued by the Special Purpose Vehicle (SPV) equal to 5% of the book value of the loans being securitised
		ii)	Where securitisation involves no credit tranching, but involves originators providing first loss credit enhancements e.g. off-balance sheet supports, cash collaterals, overcollateralisation etc.	The originator shall be providing the required credit enhancement If the first loss credit enhancement required is less than 5%, then the balance shall be in the securities issued by the SPV.
		iii)	Where securitisation involves credit tranching but no first loss credit enhancement from originator	5% in equity tranche. If equity tranche is less than 5%, then balance paripassu in remaining tranches.
		iv)	Where securitisation involves credit tranching and first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	If the first loss credit enhancement is less than 5%, then balance in equity tranche. If first loss credit enhancement plus equity tranche is less than 5%, then remaining pari-passu in other tranches.
Loans with original maturity of more than	10% of the book value of the loans	i)	Where securitization involves neither credit tranching nor any first loss credit	Investment in the securities issued by the SPV equal to 10% of the book value of the loans being securitised.

24 months	being securitised		enhancement	
		ii)	Where securitisation involves no credit tranching, but involves first loss credit enhancements from originators e.g., off balance sheet supports, cash collaterals, overcollateralisation etc.	The originator shall be providing required credit enhancement. If this is less than 10%, then balance in the securities issued by the SPV.
		iii)	Where securitisation involves credit tranching but no first loss credit enhancement from originator	5% in equity tranche or less if the equity tranche is less than 5%. The balance (10% - investment in equity tranche) pari-passu in other tranches issued by the SPV.
		iv)	Where securitisation involves credit tranching as well as the first loss credit enhancements by originators (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	i)
ii)	If the first loss credit enhancement is less than 5%, then in equity tranche so that first loss plus equity tranche is equal to 5%. Balance paripassu in other tranches (excluding equity tranche) issued by the SPV so that the total retention is 10%.			
Bullet repayment loans / receivables	10% of the book value of the loans	i)	Where securitisation involves neither credit tranching nor any first loss credit	Investment in the securities issued by the SPV equal to 10% of the book value of the loans being securitised

referred to in foot note 3 of para 1.1	being securitised		enhancement by originators	
		ii)	Where securitisation involves no credit tranching, but involves originators providing first loss credit enhancements e.g. off-balance sheet supports, cash collaterals, over collateralisation etc.	The originator shall be providing the required credit enhancement If the first loss credit enhancement required is less than 10%, then the balance shall be in the securities issued by the SPV.
		iii)	Where securitisation involves credit tranching but no first loss credit enhancement from originator	10% in equity tranche. If equity tranche is less than 10%, then balance paripassu in remaining tranches.
		iv)	Where securitisation involves credit tranching and first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, over collateralisation etc.)	If the first loss credit enhancement is less than 10%, then balance in equity tranche. If balance is greater than equity tranche, then remaining pari-passu in other tranches.

1.3.2 MRR shall have to be maintained by the entity which securitises the loans. In other words, it cannot be maintained by other entities which are treated as 'originator' in terms of para 5(vi) of the circular dated February 1, 2006 containing Guidelines on Securitisation of Standard Assets.

1.3.3 The MRR shall represent the principal cash flows. Therefore, NBFCs investment in the Interest Only Strip representing the Excess Interest Spread / Future Margin Income, whether or not subordinated, shall not be counted towards the MRR.

1.3.4 The level of or selling the retained interest commitment by originators i.e., MRR shall not be reduced either through hedging of credit risk. The MRR as a percentage

of unamortised principal shall be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR shall not change during the life of securitisation.

1.3.5 For complying with the MRR under these guidelines NBFCs shall ensure that proper documentation in accordance with law is made.

1.4 Limit on Total Retained Exposures

1.4.1 At present, total investment by the originator in the securities issued by the SPV through underwriting or otherwise is limited to 20% of the total securitised instruments issued. The total exposure of NBFCs to the loans securitised in the following forms shall not exceed 20% of the total securitised instruments issued :

- Investments in equity / subordinate / senior tranches of securities issued by the SPV including through underwriting commitments
- Credit enhancements including cash and other forms of collaterals including overcollateralisation, but excluding the credit enhancing interest only strip
- Liquidity support.

1.4.2 If an NBFC exceeds the above limit, the excess amount shall be risk weighted at 667%¹⁰.

1.4.3 The 20% limit on exposures shall not be deemed to have been breached if it is exceeded due to amortisation of securitisation instruments issued.

1.5 Booking of Profit Upfront

1.5.1 In terms of para 20.1 of [circular DBOD.No.BP.BC.60/21.04.048/2005-06 dated February 1, 2006](#), any profit / premium arising on account of securitisation of loans shall be amortised over the life of the securities issued or to be issued by the SPV. These instructions were inter alia intended to discourage 'originate-to-distribute' model. Now that these concerns are sought to be addressed to some extent by MRR, MHP and other measures being proposed in these guidelines, it has been decided to allow higher recognition of cash profits during a year based on amortisation of principal and losses incurred as well as specific provision requirements on the securitisation exposures as explained below :

¹⁰The minimum CRAR requirement for NBFCs is 15%. Hence risk weight has been capped at 667% so as to ensure that the capital charge does not exceed the exposure value.

The amount of profit received in cash may be held under an accounting head styled as "Cash Profit on Loan Transfer Transactions Pending Recognition" maintained on individual transaction basis. The amortisation of cash profit arising out of securitisation transaction shall be done at the end of every financial year and calculated as under :

$$\text{Profit to be amortised} = \text{Max}\{L, [(X*(Y/Z))], [(X/n)]\}$$

X = amount of unamortised cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year

Y = amount of principal amortised during the year

Z = amount of unamortised principal at the beginning of the year

L = Loss¹¹ (marked to market losses incurred on the portfolio + specific provisions, if any, made against the exposures to the particular securitisation transaction + direct write-off) excluding loss incurred on credit enhancing interest only strip¹²

n = residual maturity of the securitisation transaction

1.5.2 The above method of amortisation of profit can be applied to outstanding securitisation transactions as well. However, the method shall be applied only with respect to the outstanding amortisable profit and un-amortised principal outstanding as on the date of issuance of this circular.

1.5.3 At times, the originating NBFCs retain contractual right to receive some of the interest amount due on the transferred assets. This interest receivable by the originating NBFC represents a liability of the SPV and its present value is capitalised by the originating NBFC as an Interest Only Strip (I / O Strip), which is an on-balance sheet asset. Normally, a NBFC is required to recognise an unrealised gain in its Profit and Loss account on capitalisation of future interest receivable by way of I / O Strip. However, consistent with the instructions contained in circular dated February 1, 2006 referred to above, NBFCs shall not recognise the unrealised gains in Profit and Loss account; instead they shall hold the unrealised profit under an accounting head styled as "Unrealised Gain on Loan Transfer Transactions". The balance in this account shall be treated as a provision against potential losses incurred on the I / O

¹¹The losses, including marked-to-market losses, incurred by NBFCs, specific provisions, if any, and direct write-offs to be made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip) shall be charged to Profit and Loss account. However, the amortisation formula would ensure that these debits to Profit and Loss account are offset to the extent there is balance in "Cash Profit on Loan Transfer Transactions Pending Recognition Account". NBFCs shall also hold capital against securitisation exposures in terms of extant guidelines of RBI without taking into account balance in "Cash Profit on Loan Transfer Transactions Pending Recognition Account".

¹²For accounting of losses in respect of credit enhancing interest only strip, please see para 1.5.3.

Strip due to its serving as credit enhancement for the securitisation transaction¹³. The profit shall be recognised in Profit and Loss Account only when Interest Only Strip is redeemed in cash. As NBFCs shall not be booking gain on sale represented by I / O Strip upfront, it shall not be deducted from Tier I capital. This method of accounting of Interest Only Strip can be applied to outstanding securitisation transactions as well.

1.6 Disclosures by the Originating NBFCs

1.6.1 Disclosures to be made in Servicer / Investor / Trustee Report

The originating NBFCs shall disclose to investors the weighted average holding period of the assets securitised and the level of their MRR in the securitisation. The originating NBFCs shall ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well-informed stress tests on the cash flows and collateral values supporting the underlying exposures. The disclosure by an originator of its fulfillment of the MHP and MRR shall be made available publicly and shall be appropriately documented; for instance, a reference to the retention commitment in the prospectus for securities issued under that securitization programme shall be considered appropriate. The disclosure shall be made at origination of the transaction, and shall be confirmed thereafter at a minimum half yearly (end-September and March), and at any point where the requirement is breached.

The above periodical disclosures shall be made separately for each securitisation transaction, throughout its life, in the servicer report, investor report, trustee report, or any similar document published. The aforesaid disclosures shall be made in the format given in Appendix 1.

¹³The I / O Strips may be amortising or non-amortising. In the case of amortising I / O strips, an NBFC would periodically receive in cash, only the amount which is left after absorbing losses, if any, supported by the I / O strip. On receipt, this amount may be credited to Profit and Loss account and the amount equivalent to the amortisation due may be written-off against the "Unrealised Gain on Loan Transfer Transactions" A/c bringing down the book value of the I / O strip in the NBFC's books. In the case of a non-amortising I / O Strip, as and when the NBFC receives intimation of charging-off of losses by the SPV against the I / O strip, it may write-off equivalent amount against "Unrealised Gain on Loan Transfer Transactions" A/c and bring down the book value of the I / O strip in the NBFC's books. The amount received in final redemption value of the I / O Strip received in cash may be taken to Profit and Loss account.

1.6.2 Disclosures to be made by the Originator in Notes to Annual Accounts

The Notes to Annual Accounts of the originating NBFCs shall indicate the outstanding amount of securitised assets as per books of the SPVs sponsored by the NBFC and total amount of exposures retained by the NBFC as on the date of balance sheet to comply with the MRR. These figures shall be based on the information duly certified by the SPV's auditors obtained by the originating NBFC from the SPV. These disclosures shall be made in the format given in Appendix 2.

1.7 Loan Origination Standards

The originating NBFCs shall apply the same sound and well-defined criteria for credit underwriting to exposures to be securitised as they apply to exposures to be held on their book. To this end, the same processes for approving and, where relevant, amending, renewing and monitoring of credits shall be applied by the originators.

1.8 Treatment of Securitised Assets not Meeting the Requirements Stipulated above

All instructions contained in this paragraph shall be applicable only to the new transactions unless explicitly stated otherwise. If an originating NBFC fails to meet the requirement laid down in the paragraphs 1.1 to 1.7 above, it will have to maintain capital for the securitised assets as if these were not securitised. This capital would be in addition to the capital which the NBFC is required to maintain on its other existing exposures to the securitisation transaction.

2. Requirements to be met by NBFCs other than originators having Securitisation exposure

2.1 Standards for Due Diligence

2.1.1 NBFCs can invest in or assume exposure to a securitisation position only if the originator (other NBFCs / FIs / banks) has explicitly disclosed to the credit institution that it has adhered to MHP and MRR stipulated in these guidelines and will adhere to MRR guidelines on an ongoing basis.

2.1.2 Before investing, and as appropriate thereafter, NBFCs shall be able to demonstrate for each of their individual securitisation positions, that they have a comprehensive and thorough understanding of risk profile of their proposed / existing investments in securitised positions. NBFCs shall also have to demonstrate that for

making such an assessment they have implemented formal policies and procedures appropriate for analysing and recording the following :

- a) information disclosed by the originators regarding the MRR in the securitisation, on at least half yearly basis;
- b) the risk characteristics of the individual securitisation position including all the structural features of the securitisation that can materially impact the performance of the investing NBFC's securitisation position (i.e., the seniority of the tranche, thickness of the subordinate tranches, its sensitivity to prepayment risk and credit enhancement resets, structure of repayment waterfalls, waterfall related triggers, the position of the tranche in sequential repayment of tranches (time-tranching), liquidity enhancements, availability of credit enhancements in the case of liquidity facilities, deal-specific definition of default, etc.);
- c) the risk characteristics of the exposures underlying the securitization position (i.e., the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicity of the economic activities in which the underlying borrowers are engaged, etc.);
- d) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier securitisations, and fairness in selecting exposures for securitisation;
- e) loss experience in earlier securitisations of the originators in the relevant exposure classes underlying the securitisation position, incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;
- f) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the securitized exposures and, where applicable, on the quality of the collateral supporting the securitised exposures; and
- g) where applicable, the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator to ensure the independence of the valuer.

2.1.3 When the securitised instruments are subsequently purchased in the secondary market by an NBFC, it shall, at that point in time, ensure that the originator has explicitly disclosed that it will retain a position that meets the MRR.

2.2 Stress Testing

NBFCs shall regularly perform their own stress tests appropriate to their securitisation positions. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn, rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures, fall in rating of the credit enhancers resulting in fall in market value of securities (Asset Backed Securities / Mortgage Backed Securities) and drying of liquidity of the securities resulting in higher prudent valuation adjustments.

2.3 Credit Monitoring

NBFCs shall monitor on an ongoing basis and in a timely manner, performance information on the exposures underlying their securitisation positions and take appropriate action, if any, required. Action may include modification to exposure ceilings to certain type of asset class underlying securitisation transaction, modification to ceilings applicable to originators etc. For this purpose, NBFCs shall establish formal procedures commensurate with the risk profile of their exposures in securitised positions as stipulated in para 2.1.2. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60, 90, 120 and 180 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis. NBFCs may inter alia make use of the disclosures made by the originators in the form given in Appendix 1 to monitor the securitisation exposures.

2.4 Treatment of Exposures not Meeting the Requirements Stipulated above

The investing NBFCs shall assign a risk weight of 667% to the securitisation exposures where the requirements in the paragraphs 2.1 to 2.3 above are not met. While NBFCs shall make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.3, the higher risk weight of 667% shall be applicable with effect from October 01, 2012. NBFCs shall put in place necessary systems and procedures to implement the requirements in paragraphs 2.1 to 2.3 before October 31, 2012.

Section B

Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities

1. Requirements to be met by the Originating NBFCs

1.1 Assets Eligible for Transfer¹⁴

1.1.1 Under these guidelines, NBFCs can transfer a single standard asset or a part of such asset or a portfolio of such assets to financial entities through an assignment deed with the exception of the following :

- i) Revolving credit facilities (e.g., Credit Card receivables)
- ii) Assets purchased from other entities
- iii) Assets with bullet repayment of both principal and interest¹⁵

1.1.2 However, these guidelines shall not apply to:

- i) Transfer of loan accounts of borrowers by an NBFC to other NBFCs / FIs / banks and vice versa, at the request / instance of borrower;
- ii) Trading in bonds;
- iii) Sale of entire portfolio of assets consequent upon a decision to exit the line of business completely. Such a decision shall have the approval of Board of Directors of the NBFC;
- iv) Consortium and syndication arrangements.
- v) Any other arrangement / transactions, specifically exempted by the Reserve Bank of India.

1.2 Minimum Holding Period (MHP)

Same as in para 1.2 of Section A.

1.3 Minimum Retention Requirement (MRR)

1.3.1 The originating NBFCs shall adhere to the MRR detailed in the Table below while transferring assets to other financial entities :

¹⁴In these guidelines, transfer would mean transfer of assets through direct sale, assignment and any other form of transfer of assets. The generic term used for transfers would be sale and purchase

¹⁵Trade receivables with tenor up to 12 months discounted / purchased by NBFCs from their borrowers will be eligible for direct transfer through assignment. However, only those loans / receivables will be eligible for such transfer where a drawee of the bill has fully repaid the entire amount of last two loans / receivables within 180 days of the due date.

Type of asset		MRR
Assets with original maturity of 24 months or less		Retention of right to receive 5% of the cash flows from the assets transferred on pari-passu basis
i)	Assets with original maturity of above 24 months; and	Retention of right to receive 10% of the cash flows from the assets transferred on pari-passu basis.
ii)	Loans referred to in foot note 10 of para 1.1 of Section B.	

1.3.2 In the case of partial sale of assets, if the portion retained by the seller is more than the MRR required as per para 1.3.1 above, then out of the portion retained by the seller, the portion equivalent to 5% of the portion sold or 10% of the portion sold, as the case may be, shall be treated as MRR. However, all exposures retained by the selling NBFC including MRR shall rank pari-passu with the sold portion of the asset.

1.3.3 NBFCs shall not offer credit enhancements in any form and liquidity facilities in the case of loan transfers through direct assignment of cash flows, as the investors in such cases are generally the institutional investors who shall have the necessary expertise to appraise and assume the exposure after carrying out the required due diligence. NBFCs shall also not retain any exposures through investment in the Interest Only Strip representing the Excess Interest Spread / Future Margin Income from the loans transferred. However, the originating NBFCs shall have to satisfy the MRR requirements stipulated in para 1.3.1 above. NBFCs' retention of partial interest in the loans transferred to comply with the MRR indicated in para 1.3.1 shall be supported by a legally valid documentation. At a minimum, a legal opinion regarding the following shall also be kept on record by the originator :

- a) legal validity of amount of interest retained by the originator;
- b) such arrangement not interfering with assignee's rights and rewards associated with the loans to the extent transferred to it; and
- c) the originator not retaining any risk and rewards associated with the loans to the extent transferred to the assignee.

1.3.4 MRR shall have to be maintained by the entity which sells the loans. In other words, it cannot be maintained by other entities which are treated as 'originator' in terms of para 5(vi) of the circular dated February 1, 2006 containing guidelines on securitisation of standard assets.

1.3.5 The level of commitment by originators i.e., MRR shall not be reduced either through hedging of credit risk or selling the retained interest. The MRR as a percentage of unamortised principal shall be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR shall not change during the life of transaction.

1.3.6 For complying with the MRR under these guidelines, NBFCs shall ensure that proper documentation in accordance with law is made.

1.4 Booking of Profit Upfront

1.4.1 The amount of profit in cash on direct sale of loans shall be held under an accounting head styled as "Cash Profit on Loan Transfer Transactions Pending Recognition" maintained on individual transaction basis and amortised over the life of the transaction. The amortisation of cash profit arising out of loan assignment transaction shall be done at the end of every financial year and calculated as under :

Profit to be amortised = $\text{Max} \{L, [(X*(Y/Z)), [(X/n)]\}$

X = amount of unamortised cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year

Y = amount of principal amortised during the year

Z = amount of unamortised principal at the beginning of the year

L = Loss (specific provisions to be made on retained exposures for credit losses plus direct write-off plus any other losses, if any)¹⁶ incurred on the portfolio

n = residual maturity of the securitisation transaction

1.4.2 Accounting, Asset Classification and provisioning norms for MRR

The asset classification and provisioning rules in respect of the exposure representing the MRR shall be as under :

a) The originating NBFC shall maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the

¹⁶The specific provisions to be made as well as direct write-offs and other losses, if any, on the retained exposures shall be charged to Profit and Loss account. In addition NBFCs shall hold capital against the exposure retained as part of MRR as required in terms of extant guidelines of RBI without taking into account balance in "Cash Profit on Loan Transfer Transactions Pending Recognition" account. NBFCs will also be required to separately maintain 'standard asset' provisions on MRR as per existing instructions which shall not be charged to the "Cash Profit on Loan Transfer Transactions Pending Recognition" A/c.

consolidated amount receivable in amortisation of the MRR and its periodicity shall be clearly established and the overdue status of the MRR shall be determined with reference to repayment of such amount. Alternatively, the originating NBFC shall continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts shall be determined with reference to repayment received in each account.

b) In the case of transfer of a pool of loans other than retail loans, the originator shall maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts shall be determined with reference to repayment received in each account.

c) If the originating NBFC acts as a servicing agent of the assignee bank / NBFC for the loans transferred, it would know the overdue status of loans transferred which shall form the basis of classification of the entire MRR / individual loans representing MRR as NPA in the books of the originating NBFC, depending upon the method of accounting followed as explained in para (a) and (b) above.

1.5 Disclosures by the Originating NBFCs

Same as in para 1.6 of Section A.

1.6 Loan Origination Standards

Same as in para 1.7 of Section A.

1.7 Treatment of Assets sold not Meeting the Requirements stipulated above

All instructions contained in this paragraph except in para 1.4.2 shall be applicable only to the new transactions undertaken on or after the date of this circular. Instructions in para 1.4.2 shall be applicable to both existing and new transactions¹⁷. If an originating NBFC fails to meet the requirement laid down in paragraphs 1.1 to 1.6 above, it shall have to maintain capital for the assets sold as if these were still on the books of the NBFC (originating NBFC).

¹⁷For existing transactions para 1.4.2 would apply to credit enhancements or any other type of retained exposures.

2. Requirements to be met by the Purchasing NBFCs

2.1 Restrictions on Purchase of loans

NBFCs can purchase loans from other NBFCs / FIs / banks in India only if the seller has explicitly disclosed to the purchasing NBFCs that it shall adhere to the MRR indicated in para 1.3 on an ongoing basis. In addition, for domestic transactions, purchasing NBFCs shall also ensure that the originating institution has strictly adhered to the MHP criteria prescribed in the guidelines in respect of loans purchased by them.

2.2 Standards for Due Diligence

2.2.1 NBFCs shall have the necessary expertise and resources in terms of skilled manpower and systems to carry out the due diligence of the loans / portfolios of loans before purchasing them. In this regard the purchasing NBFCs shall adhere to the following guidelines :

- a) NBFCs with the approval of their Board of Directors, shall formulate policies regarding the process of due diligence which needs to be exercised by the NBFCs' own officers to satisfy about the Know Your Customer requirements and credit quality of the underlying assets. Such policies shall inter alia lay down the methodology to evaluate credit quality of underlying loans, the information requirements etc.
- b) The due diligence of the purchased loans shall be outsourced by the NBFC and shall be carried out by its own officers with the same rigour as shall have been applied while sanctioning new loans by the NBFC.
- c) If an NBFC wishes to outsource certain activities like collection of information and documents etc., then NBFCs shall continue to retain full responsibility in regard to selection of loans for purchase and compliance with Know Your Customer requirements.

2.2.2 Before purchasing individual loans or portfolio of loans, and as appropriate thereafter, NBFCs shall be able to demonstrate that they have a comprehensive and thorough understanding of and have implemented formal policies and procedures commensurate with the risk profile of the loans purchased analysing and recording :

- a) information disclosed by the originators regarding the MRR, on an ongoing basis;
- b) the risk characteristics of the exposures constituting the portfolio purchased (i.e., the credit quality, extent of diversification and homogeneity of the pool of loans,

sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicity of the economic activities in which the underlying borrowers are engaged, etc.);

c) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier transfer of portfolios and fairness in selecting exposures for transfer;

d) loss experience in earlier transfer of loans / portfolios by the originators in the relevant exposure classes underlying and incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;

e) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the assigned exposures and, where applicable, on the quality of the collateral supporting the loans transferred; and

f) where applicable, the methodologies and concepts on which the valuation of loans transferred is based and the policies adopted by the originator to ensure the independence of the valuer.

2.3 Stress Testing

NBFCs shall regularly perform their own stress tests appropriate to the portfolios of loans purchased by them. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn and rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures.

2.4 Credit monitoring

2.4.1 The purchasing NBFCs need to monitor on an ongoing basis and in timely manner performance information on the loans purchased and take appropriate action required, if any. Action shall include modification to exposure ceilings to certain type of asset classes, modification to ceilings applicable to originators etc. For this purpose, NBFCs shall establish formal procedures appropriate and commensurate with the risk profile of the purchased loans. Such procedures shall be as rigorous as that followed by the NBFC for portfolios of similar loans directly originated by it. In

particular, such procedures must facilitate timely detection of signs of weaknesses in individual accounts and identification of non-performing borrowers as per RBI guidelines as soon as loans are 180 days past due. The information collected shall include the exposure type, the percentage of loans more than 30, 60, 90, 120 and 180 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis. Such information, if not collected directly by the NBFC and obtained from the servicing agent, shall be certified by the authorized officials of the servicing agent. NBFCs may inter alia make use of the disclosures made by the originators in the form given in Appendix 1 to monitor the exposures.

2.4.2 Depending upon the size of the portfolio, credit monitoring procedures may include verification of the information submitted by the bank / NBFC's concurrent and internal auditors. The servicing agreement shall provide for such verifications by the auditors of the purchasing NBFC. All relevant information and audit reports shall be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing NBFCs.

2.5 True Sale Criteria¹⁸

2.5.1 The 'sale' (this term shall hereinafter include direct sale, assignment and any other form of transfer of asset, but shall not include bills rediscounted, outright transfer of loan accounts to other financial entities at the instance of the borrower and sale of bonds other than those in the nature of advance) shall result in immediate legal separation of the 'selling NBFC'¹⁹ (this term hereinafter would include direct selling NBFC, assigning NBFC and the NBFC transferring assets through any other mode), from the assets²⁰ which are sold. The assets shall stand completely isolated from the selling NBFC, after its transfer to the buyer, i.e., put beyond the selling NBFC's as well as its creditors' reach, even in the event of bankruptcy of the selling / assigning / transferring NBFC.

¹⁸For true sale criteria for securitisation transaction, please refer to Guidelines on Securitisation of Standard Assets [DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 01, 2006](#) as amended from time to time.

¹⁹In this para, the term 'selling NBFC' will include other financial entities selling loans to NBFCs

²⁰In case of sale of a part of an asset, true sale criteria will apply to the part of the asset sold

2.5.2 The selling NBFC shall effectively transfer all risks / rewards and rights / obligations pertaining to the asset and shall not hold any beneficial interest in the asset after its sale except those specifically permitted under these guidelines. The buyer shall have the unfettered right to pledge, sell, transfer or exchange or otherwise dispose of the assets free of any restraining condition. The selling NBFC shall not have any economic interest in the assets after its sale and the buyer shall have no recourse to the selling NBFC for any expenses or losses except those specifically permitted under these guidelines.

2.5.3 There shall be no obligation on the selling NBFC to re-purchase or fund the repayment of the asset or any part of it or substitute assets held by the buyer or provide additional assets to the buyer at any time except those arising out of breach of warranties or representations made at the time of sale. The selling NBFC shall be able to demonstrate that a notice to this effect has been given to the buyer and that the buyer has acknowledged the absence of such obligation.

2.5.4 The selling NBFC shall be able to demonstrate that it has taken all reasonable precautions to ensure that it is not obliged, nor will feel impelled, to support any losses suffered by the buyer.

2.5.5 The sale shall be only on cash basis and the consideration shall be received not later than at the time of transfer of assets. The sale consideration shall be market-based and arrived at in a transparent manner on an arm's length basis.

2.5.6 If the seller of loans acts as the servicing agent for the loans, it shall not detract from the 'true sale' nature of the transaction, provided such service obligations do not entail any residual credit risk on the sold assets or any additional liability for them beyond the contractual performance obligations in respect of such services.

2.5.7 An opinion from the selling NBFC's Legal Counsel shall be kept on record signifying that : (i) all rights, titles, interests and benefits in the assets have been transferred to the buyer; (ii) selling NBFC is not liable to the buyer in any way with regard to these assets other than the servicing obligations as indicated in para 2.5.6 above; and (iii) creditors of the selling NBFC do not have any right in any way with regard to these assets even in case of bankruptcy of the selling NBFC.

2.5.8 Any re-schedulement, restructuring or re-negotiation of the terms of the underlying agreement/s effected after the transfer of assets to the buyer, shall be binding on the buyer and not on the selling NBFC except to the extent of MRR.

2.5.9 The transfer of assets from selling NBFC must not contravene the terms and conditions of any underlying agreement governing the assets and all necessary consents from obligors (including from third parties, where necessary) shall have been obtained.

2.5.10 In case the selling NBFC also provides servicing of assets after the sale under a separate servicing agreement for fee, and the payments / repayments from the borrowers are routed through it, it shall be under no obligation to remit funds to the buyer unless and until these are received from the borrowers.

2.6 Representations and Warranties

An originator that sells assets to other financial entities may make representations and warranties concerning those assets. Where the following conditions are met the seller shall not be required to hold capital against such representations and warranties.

a) Any representation or warranty is provided only by way of a formal written agreement.

b) The seller undertakes appropriate due diligence before providing or accepting any representation or warranty.

c) The representation or warranty refers to an existing state of facts that is capable of being verified by the seller at the time the assets are sold.

d) The representation or warranty is not open-ended and, in particular, does not relate to the future creditworthiness of the loans / underlying borrowers.

e) The exercise of a representation or warranty, requiring an originator to replace asset (or any parts of them) sold, on grounds covered in the representation or warranty, must be :

- * undertaken within 120 days of the transfer of assets; and

- * conducted on the same terms and conditions as the original sale.

f) A seller that is required to pay damages for breach of representation or warranty can do so provided the agreement to pay damages meets the following conditions :

- * the onus of proof for breach of representation or warranty remains at all times with the party so alleging;

- * the party alleging the breach serves a written Notice of Claim on the seller, specifying the basis for the claim; and

- * damages are limited to losses directly incurred as a result of the breach

g) A seller shall notify RBI (Department of Non-Banking Supervision) of all instances where it has agreed to replace assets sold to another financial entity or pay damages arising out of any representation or warranty.

2.7 Re-purchase of Assets

In order to limit the extent of effective control of transferred assets by the seller in the case of direct assignment transactions, NBFCs shall not have any re-purchase agreement including through "clean-up calls" on the transferred assets.

2.8 Applicability of Capital Adequacy and other Prudential Norms

2.8.1 The capital adequacy treatment for direct purchase of loans shall be as per the rules applicable to loans directly originated by the NBFCs. Investment in tranches of securitized loans shall attract capital adequacy and other prudential norms as applicable to securitization transactions. NBFCs may, if they so desire, have the pools of loans rated before purchasing so as to have a third party view of the credit quality of the pool in addition to their own due diligence. However, such rating shall not substitute for the due diligence that the purchasing NBFC is required to perform in terms of para 2.2 of this Section.

2.8.2 In purchase of pools of retail and non-retail loans, income recognition, asset classification, provisioning and exposure norms for the purchasing NBFC shall be applicable based on individual obligors and not based on portfolio. NBFCs shall not apply the asset classification, income recognition and provisioning norms at portfolio level, as such treatment is likely to weaken the credit supervision due to its inability to detect and address weaknesses in individual accounts in a timely manner. If the purchasing NBFC is not maintaining the individual obligor-wise accounts for the portfolio of loans purchased, it shall have an alternative mechanism to ensure application of prudential norms on individual obligor basis, especially the classification of the amounts corresponding to the obligors which shall be treated as NPAs as per existing prudential norms. One such mechanism could be to seek monthly statements containing account-wise details from the servicing agent to facilitate classification of the portfolio into different asset classification categories. Such details shall be certified by the authorized officials of the servicing agent. NBFC's concurrent auditors, internal auditors and statutory auditors shall also conduct checks of these portfolios with reference to the basic records maintained by

the servicing agent. The servicing agreement shall provide for such verifications by the auditors of the purchasing NBFC. All relevant information and audit reports shall be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing NBFCs.

2.8.3 The purchased loans shall be carried at acquisition cost unless it is more than the face value, in which case the premium paid shall be amortised based on straight line method or effective interest rate method, as considered appropriate by the individual NBFCs. The outstanding / unamortised premium shall not be deducted from capital. The discount / premium on the purchased loans can be accounted for on portfolio basis or allocated to individual exposures proportionately.

2.9 Treatment of Exposures not Meeting the Requirements Stipulated Above

The investing NBFCs shall assign a risk weight of 667% to the assignment exposures where the requirements in paragraphs 2.1 to 2.8 above are not met. While NBFCs shall make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.4, the higher risk weight of 667% for non-compliance of these paragraphs shall be applicable with effect from October 01, 2012. NBFCs shall put in place necessary systems and procedures to implement the requirements in paragraphs 2.1 to 2.4 before October 31, 2012.

Section C

Securitisation Activities / Exposures not permitted

1. At present, NBFCs in India are not permitted to undertake the securitisation activities or assume securitisation exposures as mentioned below.

1.1 Re-securitisation of Assets

A re-securitisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation exposure. In addition, an exposure to one or more re-securitisation exposures is a re-securitisation exposure. This definition of re-securitised exposure shall capture collateralised debt obligations (CDOs) of asset backed securities, including, for example, a CDO backed by residential mortgage backed securities (RMBS).

1.2 Synthetic Securitisations

A synthetic securitisation is a structure with at least two different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g. credit-linked notes) or unfunded (e.g. credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors' potential risk is dependent upon the performance of the underlying pool.

1.3 Securitisation with Revolving Structures (with or without early amortisation features)

These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities). Typically, revolving structures shall have non-amortising assets such as credit card receivables, trade receivables, dealer floor plan loans and some leases that would support non-amortising structures, unless these are designed to include early amortisation features. Early amortisation means repayment of securities before their normal contractual maturity. At the time of early amortisation there are three potential amortisation mechanics: (i) Controlled amortisation; (ii) Rapid or non-controlled amortisation; and (iii) Controlled followed by a subsequent (after the completion of the controlled period) non-controlled amortisation phase.

2. The appropriateness and suitability of transactions prohibited in the above guidelines would be revisited in due course.

Appendix – 1

Format for Disclosure Requirements in offer documents, servicer report, investor report, etc.²¹

Name / Identification No. of securitisation transaction²²

	Nature of disclosure	Details	Amount / percentage / years
1.	Maturity characteristics of the underlying assets (on the date of disclosure)	i) Weighted average maturity of the underlying assets (in years)	
		ii) Maturity-wise distribution of underlying assets	
		a) Percentage of assets maturing within one year	
		b) Percentage of assets maturing within one to three year	
		c) Percentage of assets maturing within three to five years	
		d) Percentage of assets maturing after five years	
2	Minimum Holding Period (MHP) of securitised assets	i) MHP required as per RBI guidelines (years / months)	
		ii) a) Weighted average holding period of securitised assets at the time of securitisation (years / months)	
		b) Minimum and maximum holding period of the securitised assets	
3	Minimum Retention Requirement (MRR) on the date of disclosure	i) MRR as per RBI guidelines as a percentage of book value of assets securitised and outstanding on the date of disclosure	
		ii) Actual retention as a percentage of book value of assets securitised and outstanding on the date of disclosure	
		iii) Types of retained exposure constituting MRR in	

²¹This appendix will also be applicable to direct transfer of loans. For that purpose the words 'securitised assets'/asset securitised' may be interpreted to mean 'loans directly transferred / assigned'. NBFCs shall disclose / report the information in respect of securitisation and direct transfers separately.

²²These disclosures shall be made separately for each securitisation transaction throughout the life of the transaction

			percentage of book value of assets securitised (percentage of book value of assets securitised and outstanding on the date of disclosure) ²³	
		a)	Credit Enhancement (i.e. whether investment in equity / subordinate tranches, first / second loss guarantees, cash collateral, over collateralisation)	
		b)	Investment in senior tranches	
		c)	Liquidity support	
		d)	Any other (pl. specify)	
		iv)	Breaches, if any, and reasons there for	
4	Credit quality of the underlying loans	i)	Distribution of overdue loans	
		a)	Percentage of loans overdue up to 30 days	
		b)	Percentage of loans overdue between 31-60 days	
		c)	Percentage of loans overdue between 61-90 days	
		d)	Percentage of loans overdue between 90 and 120 days	
		e)	Percentage of loans overdue between 120 and 180 days	
		f)	Percentage of loans overdue more than 180 days	
		ii)	Details of tangible security available for the portfolio of underlying loans (vehicles, mortgages, etc.)	
		a)	Security 1 (to be named) (% loans covered)	
		b)	Security 2.....	
		c)	Security 'n'	
		iii)	Extent of security cover available for the underlying loans	
		a)	Percentage of loans fully secured included in the pool (%)	
		b)	Percentage of partly secured loans included in the pool (%)	

²³This item is not relevant for direct transfer of loans, as there will be no credit enhancement, liquidity support and tranching.

		c) Percentage of unsecured loans included in the pool (%)	
	iv)	Rating-wise distribution of underlying loans (if these loans are rated)	
		a) Internal grade of the NBFC / external grade (highest quality internal grade may be indicated as 1)	
		1/AAA or equivalent	
		2	
		3	
		4.....	
		N	
		b) Weighted average rating of the pool	
	v)	Default rates of similar portfolios observed in the past	
		a) Average default rate per annum during last five years	
		b) Average default rate per annum during last year	
	vi)	Upgradation / Recovery / Loss Rates of similar portfolios	
		a) Percentage of NPAs upgraded (average of the last five years)	
		b) Amount written-off as a percentage of NPAs in the beginning of the year (average of last five years)	
		c) Amount recovered during the year as a percentage of incremental NPAs during the year (average of last five year)	
	vii)	Frequency distribution of LTV ratios, in case of housing loans and commercial real estate loans)	
		a) Percentage of loans with LTV ratio less than 60%	
		b) Percentage of loans with LTV ratio between 60-75%	

		c)	Percentage of loans with LTV ratio greater than 75%	
		d)	Weighted average LTV ratio of the underlying loans (%)	
5	Other characteristics of the loan pool	i)	Industry-wise breakup of the loans in case of mixed pools (%)	
			Industry 1	
			Industry 2	
			Industry 3....	
			Industry n	
		ii)	Geographical distribution of loan pools (state wise) (%)	
			State 1	
			State 2	
			State 3	
		State 4		

Appendix 2

Disclosures to be made in Notes to Accounts by NBFCs

S. No.	Particulars	No. / Amount in ₹ crore
1.	No of SPVs sponsored by the NBFC for securitisation transactions ²⁴	
2.	Total amount of securitised assets as per books of the SPVs sponsored by the NBFC	
3.	Total amount of exposures retained by the NBFC to comply with MRR as on the date of balance sheet	
	a) Off-balance sheet exposures	
	* First loss	
	* Others	
	b) On-balance sheet exposures	
	* First loss	
	* Others	
4	Amount of exposures to securitisation transactions other than MRR	
	a) Off-balance sheet exposures	
	i) Exposure to own securitisations	
	* First loss	
	* loss	
	ii) Exposure to third party securitisations	
	* First loss	
	* Others	
	b) On-balance sheet exposures	
	i) Exposure to own securitisations	
	* First loss	
	* Others	
	ii) Exposure to third party securitisations	
	* First loss	
	* Others	

²⁴Only the SPVs relating to outstanding securitisation transactions may be reported here.

**Guidelines on Private Placement of NCDs (maturity more than 1 year) by
NBFCs:**

1. NBFCs shall put in place a Board approved policy for resource planning which, inter-alia, shall cover the planning horizon and the periodicity of private placement.
2. The issues shall be governed by the following instructions:
 - i. The minimum subscription per investor shall be ₹ 20,000 (Rupees Twenty thousand);
 - ii. The issuance of private placement of NCDs shall be in two separate categories, those with a maximum subscription of less than ₹ 1 crore and those with a minimum subscription of ₹ 1 crore and above per investor;
 - iii. There shall be a limit of 200 subscribers for every financial year, for issuance of NCDs with a maximum subscription of less than ₹ 1 crore, and such subscription shall be fully secured;
 - iv. There shall be no limit on the number of subscribers in respect of issuances with a minimum subscription of ₹ 1 crore and above; the option to create security in favour of subscribers shall be with the issuers. Such unsecured debentures shall not be treated as public deposits as defined in these Directions.
 - v. An NBFC shall issue debentures only for deployment of funds on its own balance sheet and not to facilitate resource requests of group entities / parent company / associates.
 - vi. An NBFC shall not extend loans against the security of its own debentures (issued either by way of private placement or public issue).
3. Tax exempt bonds offered by NBFCs are exempted from the applicability of the circular.
4. For NCDs of maturity upto one year, guidelines on Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010, dated June 23, 2010, by Internal Debt Management Department, RBI shall be applicable.

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 Before a loan account turns into an NPA, NBFCs shall be required to identify incipient stress in the account by creating a sub-asset category viz. 'Special Mention Accounts' (SMA) with the three sub-categories as given in the table below :

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress as illustrated in the annex to the framework of Jan 30, 2014 (Annex-A)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-180 days

1.1.2 The Reserve Bank of India has set up a Central Repository of Information on Large Credits (CRILC) to collect, store, and disseminate credit data to lenders as advised by the Bank in its [Circular No. DBS.No.OSMOS.9862/33.01.018/2013-14 dated February 13, 2014](#) issued by the Department of Banking Supervision. All NBFCs, (Notified NBFCs, for short) shall be required to report the relevant credit information on a quarterly basis in the enclosed formats given in Annex I to CRILC once the XBRL reporting mechanism is established. Till then they shall forward the information to PCGM, Department of Banking Supervision, Reserve Bank of India, World Trade Centre, Mumbai - 400 005 in hard copy. The data includes credit information on all the borrowers having aggregate fund-based and non-fund based exposure of ₹ 50 million and above with them and the SMA status of the borrower. The Notified NBFCs shall be ready with the correct PAN details of their borrowers having fund based and / or non-fund based exposure of ₹ 50 million and above duly authenticated from Income Tax records.

1.1.3 Individual notified NBFCs shall closely monitor the accounts reported as SMA-1 or SMA-0 as these are the early warning signs of weaknesses in the account. They shall take up the issue with the borrower with a view to rectifying the deficiencies at the earliest. However, as soon as an account is reported as SMA-2 by one or more lending banks / notified NBFCs, this will trigger the mandatory formation of a Joint Lenders' Forum (JLF) and formulation of Corrective Action Plan (CAP) (Annex-B) as envisioned in Para 2.3 of the Framework. Notified NBFCs must put in place a proper Management Information and Reporting System so that any account having principal or interest overdue for more than 60 days gets reported as SMA-2 on the 61st day itself in the format given in Annex II, in hard copy to PCGM, Department of Banking Supervision, Reserve Bank of India, World Trade Centre, Mumbai - 400 005. NBFCs shall endeavour to put in place an XBRL reporting framework at the earliest.

1.2 Accelerated Provisioning

1.2.1 In cases where NBFCs fail to report SMA status of the accounts to CRILC or resort to methods with the intent to conceal the actual status of the accounts or evergreen the account, NBFCs shall be subjected to accelerated provisioning for these accounts and / or other supervisory actions as deemed appropriate by RBI. The current provisioning requirement and the revised accelerated provisioning in respect of such non performing accounts are as under:

Asset Classification	Period as NPA	Period as NPA For NBFCs	Current *provisioning (%) NBFCs	Revised accelerated provisioning (%) for banks and proposed for NBFCs
Sub- standard (secured)	Up to 6 months			No change
	6 months to 1 year	6 months to 1 and half year	For secured and unsecured 10	25
Sub-standard (unsecured ab-initio)	Up to 6 months	--		25
		--		
	6 months	6 months to 1 and	10	40

	to 1 year	half year		
		6 months to 1 and half year	10	
Doubtful I	2nd year	Upto One year (secured portion)	20	40 (secured portion)
		Up to one year (unsecured portion)	100	100 (unsecured portion)
		1-3 years	30 for secured portion and 100 for unsecured portion	For NBFCs the above may be adopted i.e. 40 and 100
Doubtful II	3rd & 4th year	More than Three Years	100 for unsecured portion and 50 for secured portion	100 for both secured and unsecured portions
Doubtful III	5th year onwards			100

1.2.2 Further, any of the lenders who have agreed to the restructuring decision under the CAP by JLF and is a signatory to the Inter Creditor Agreement (ICA) and Debtor Creditor Agreement (DCA), but changes their stance later on, or delays / refuses to implement the package, shall also be subjected to accelerated provisioning requirement as indicated above, on their exposure to this borrower i.e., if it is classified as an NPA. If the account is standard in those lenders' books, the provisioning requirement would be 5%. 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%.

1.3 "Non-Co-operative borrowers"

1.3.1 All Notified NBFCs shall identify "non-co-operative borrowers". A "non-co-operative borrower" is defined as one who does not provide necessary information required by a lender to assess its financial health even after 2 reminders; or denies access to securities etc. as per terms of sanction or does not comply with other terms of loan agreements within stipulated period; or is hostile / indifferent / in denial mode to negotiate with the NBFC on repayment issues; or plays for time by giving false impression that some solution is on horizon; or resorts to vexatious tactics such as litigation to thwart timely resolution of the interest of the lender/s. The borrowers shall be given 30 days' notice to clarify their stand before their names are reported as non-cooperative borrowers.

1.3.2 With a view to discouraging borrowers / defaulters from being unreasonable and non-cooperative with lenders in their bonafide resolution / recovery efforts, NBFCs shall classify such borrowers as non-cooperative borrowers, after giving them due notice if satisfactory clarifications are not furnished. Notified NBFCs shall be required to report classification of such borrowers to CRILC. Further, NBFCs shall be required to make higher / accelerated provisioning in respect of new loans / exposures to such borrowers as also new loans / exposures to any other company promoted by such promoters / directors or to a company on whose board any of the promoter / directors of this non-cooperative borrower is a director. The provisioning applicable in such cases shall be at the rate of 5% if it is a standard account and accelerated provisioning, if it is an NPA. This is a prudential measure since the expected losses on exposures to such non-cooperative borrowers are likely to be higher.

2. Board Oversight

2.1 The Board of Directors of NBFCs shall take all necessary steps to arrest the deteriorating asset quality in their books and shall focus on improving the credit risk management system. Early recognition of problems in asset quality and resolution

envisaged in the Framework requires the lenders to be proactive and make use of CRILC as soon as it becomes functional.

2.2 Boards shall ensure that a policy is put in place for timely provision of credit information to and access to credit information from CRILC, prompt formation of JLFs, monitoring the progress of JLFs and periodical review of the above policy.

3. Credit Risk Management

3.1 Notified NBFCs shall carry out their independent and objective credit appraisal in all cases of lending and must not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrowing entity. They shall carry out sensitivity tests / scenario analysis, especially for infrastructure projects, which shall, inter alia, include project delays and cost overruns. This will aid in taking a view on viability of the project at the time of deciding Corrective Action Plan (CAP). NBFCs shall ascertain the source and quality of equity capital brought in by the promoters / shareholders. Multiple leveraging, especially, in infrastructure projects, is a matter of concern as it effectively camouflages the financial ratios such as Debt / Equity ratio, leading to adverse selection of the borrowers. Therefore, NBFCs shall ensure at the time of credit appraisal that debt of the parent company is not infused as equity capital of the subsidiary / SPV.

3.2 While carrying out the credit appraisal, notified NBFCs shall verify as to whether the names of any of the directors of the companies appear in the list of defaulters by way of reference to DIN / PAN etc. Further, in case of any doubt arising on account of identical names, NBFCs shall use independent sources for confirmation of the identity of directors rather than seeking declaration from the borrowing company.

3.3 In addition to the above, notified NBFCs shall with a view to ensuring proper end-use of funds and preventing diversion / siphoning of funds by the borrowers, NBFCs could consider engaging their own auditors for such specific certification purpose without relying on certification given by borrower's auditors. However, this cannot substitute NBFC's basic minimum own diligence in the matter.

4. Purchase / Sale of Non-Performing Financial Assets to Other Banks / FIs / NBFCs

4.1 DBOD Circular on Guidelines on Sale / Purchase of Non-Performing Financial Assets' (also applicable to NBFCs) as consolidated and updated in DBOD Master

Circular 'Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances', inter-alia, prescribes the following:

A non-performing asset in the books of a bank shall be eligible for sale to other banks only if it has remained a non-performing asset for at least two years in the books of the selling bank.

A non-performing financial asset shall be held by the purchasing bank in its books at least for a period of 15 months before it is sold to other banks

4.2 In partial modification to the above, NBFCs shall be permitted to sell their NPAs to other banks / FIs / NBFCs (excluding SCs / RCs) without any initial holding period. However, the non-performing financial asset shall be held by the purchasing bank / FI / NBFC in its books at least for a period of 12 months before it is sold to other banks / financial institutions / NBFCs (excluding SCs / RCs). The extant prudential norms on asset classification of such assets in the books of purchasing banks / FIs / NBFCs shall remain unchanged.

SMA-0 Signs of Stress

Illustrative list of signs of stress for categorising an account as SMA-0:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.
 2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by NBFCs or evidence of diversion of funds for unapproved purpose.
 3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
 4. Devolvement of Deferred Payment Guarantee (DPG) instalments or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.
 5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
 6. The borrower reporting stress in the business and financials.
 7. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.
-

Formation of Joint Lenders Forum (JLF)

Notified NBFCs are advised that as soon as an account is reported by any of the lenders to CRILC as SMA-2, they shall mandatorily form a committee to be called Joint Lenders' Forum (JLF) if the aggregate exposure (AE) [fund based and non-fund based taken together] of lenders in that account is ₹ 1000 million and above. Lenders also have the option of forming a JLF even when the AE in an account is less than ₹1000 million 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 ₹ 1000 million 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 ₹ 1000 million and above, in other cases also the lenders shall have to monitor the asset quality closely and take corrective action for effective resolution as deemed appropriate.

2 Corrective Action Plan (CAP) by JLF

2.1 The JLF may explore various options to resolve the stress in the account. The intention is not to encourage a particular resolution option, e.g. restructuring or recovery, but to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans. The options under CAP by the JLF shall generally include:

(a) Rectification - Obtaining a specific commitment from the borrower to regularise the account so that the account comes out of SMA status or does not slip into the NPA category. The commitment shall be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. If the existing promoters are not in a position to bring in additional money or take any measures to regularise the account, the possibility of getting some other equity/strategic investors to the company may be explored by the JLF in consultation with the borrower. These measures are intended to turn-around the entity/company without any change in terms and conditions of the loan. The JLF may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. However, it shall be strictly ensured that additional financing is not provided with a view to ever-greening the account.

(b) Restructuring - Consider the possibility of restructuring the account if it is prima facie viable and there is no diversion of funds, fraud or malfeasance, etc. At this stage, commitment from promoters for extending their personal guarantees along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they shall not undertake any transaction that shall alienate assets without the permission of the JLF. Any deviation from the commitment by the borrowers affecting the security/recoverability of the loans may be treated as a valid factor for initiating recovery process. For this action to be sustainable, the lenders in the JLF may sign an Inter Creditor Agreement (ICA) and also require the borrower to sign the Debtor Creditor Agreement (DCA) which shall provide the legal basis for any restructuring process. The formats used by the Corporate Debt Restructuring (CDR) mechanism for ICA and DCA could be considered, if necessary with appropriate changes. Further, a 'stand still' clause could be stipulated in the DCA to enable a smooth process of restructuring. The 'stand-still' clause does not mean that the borrower is precluded from making

payments to the lenders. The ICA may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c) Recovery - Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The JLF may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimising the efforts and results.

2.2 The decisions agreed upon by a minimum of 75% of creditors by value and 60% of creditors by number in the JLF shall be considered as the basis for proceeding with the restructuring of the account, and shall be binding on all lenders under the terms of the ICA. However, if the JLF decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws/Acts would be applicable.

2.3 The JLF is required to arrive at an agreement on the option to be adopted for CAP within 30 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress. The JLF shall sign off the detailed final CAP within the next 30 days from the date of arriving at such an agreement.

2.4 If the JLF decides on options 2.1 (a) or (b), but the account fails to perform as per the agreed terms under option (a) or (b), the JLF shall initiate recovery under option 2.1 (c).

3. Restructuring Process

3.1 RBI's extant prudential guidelines on restructuring of advances lay down detailed methodology and norms for restructuring of advances under individual as well as multiple/ consortium arrangements. Corporate Debt Restructuring (CDR) mechanism is an institutional framework for restructuring of multiple/ consortium advances of banks and NBFCs where even creditors who are not part of CDR system can join by signing transaction to transaction based agreements.

3.2 If the JLF decides restructuring of the account as CAP, it shall have the option of either referring the account to CDR Cell after a decision to restructure is taken under para 2.1 as indicated above or restructure the same independent of the CDR mechanism.

3.3 Restructuring by JLF

3.3.1 If the JLF decides to restructure an account independent of the CDR mechanism, the JLF shall carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP as mentioned in paragraph 2.3 above.

3.3.2 For accounts with AE of less than ₹ 5000 million, 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 ₹ 5000 million and above, the above-mentioned TEV study and restructuring package shall have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts fulfilling certain eligibility conditions. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC shall be required to give their recommendation in these cases to the JLF within a period of 30 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the restructuring package including all terms and conditions as mutually agreed upon between the lenders and borrower, shall have to be approved by all the lenders and communicated to the borrower within next 15 days for implementation.

3.3.4 Asset Classification benefit as applicable under the extant guidelines shall accrue to such restructured accounts as if they were restructured under CDR mechanism. For this purpose, the asset classification of the account as on the date of formation of JLF shall be taken into account.

3.3.5 The above-mentioned time limits are maximum permitted time periods and the JLF shall try to arrive at a restructuring package as soon as possible in cases of simple restructuring.

3.3.6 Restructuring cases shall be taken up by the JLF only in respect of assets reported as Standard, SMA or Sub-Standard by one or more lenders of the JLF. While generally no account classified as doubtful shall be considered by the JLF for restructuring, in cases where a small portion of debt is doubtful i.e. the account is standard/sub-standard in the books of at least 90% of creditors (by value), the account shall then be considered under JLF for restructuring.

3.3.7 The viability of the account shall be determined by the JLF based on acceptable viability benchmarks determined by them. Illustratively, the parameters may include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity/Current

Ratio and the amount of provision required in lieu of the diminution in the fair value of the restructured advance, etc. Further, the JLF may consider the benchmarks for the viability parameters adopted by the CDR mechanism as mentioned in these Directions and adopt the same with suitable adjustments taking into account the fact that different sectors of the economy have different performance indicators.

3.4 Restructuring Referred by the JLF to the CDR Cell

3.4.1 If the JLF decides to refer the account to CDR Cell after a decision to restructure is taken under para 2.1, the following procedure shall be followed.

3.4.2 As the preliminary viability of account has already been decided by the JLF, CDR Cell shall directly prepare the Techno-Economic Viability (TEV) study and restructuring plan in consultation with JLF within 30 days from the date of reference to it by the JLF.

3.4.3 For accounts with AE of less than ₹ 5000 million, the above-mentioned restructuring package shall be submitted to CDR Empowered Group (EG) for approval. Under extant instructions, CDR EG can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days, which can be extended up to a maximum of 180 days from the date of reference to CDR Cell. However, the cases referred to CDR Cell by JLF shall have to be finally decided by the CDR EG within the next 30 days. If approved by CDR EG, the restructuring package shall be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

3.4.4 For accounts with AE of ₹ 5000 million and above, the TEV study and restructuring package prepared by CDR Cell shall have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts. As stated in paragraph 3.3.3, composition and other details of the IEC would be communicated separately by IBA to banks. The IEC shall look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC shall be required to give their recommendation in these aspects to the CDR Cell under advice to JLF within a period of 30 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the same shall be communicated to CDR Cell and CDR Cell shall submit the restructuring package to CDR EG within a total period of 7 days from receiving the views of IEC. Thereafter, CDR EG shall decide on the approval/modification/rejection within the next 30 days. If approved by CDR

EG, the restructuring package shall be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

4. Other Issues/Conditions Relating to Restructuring by JLF/CDR Cell

4.1 Both under JLF and CDR mechanism, the restructuring package shall also stipulate the timeline during which certain viability milestones (e.g. improvement in certain financial ratios after a period of time, say, 6 months or 1 year and so on) would be achieved. The JLF must periodically review the account for achievement/non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.

4.2 Restructuring whether under JLF or CDR is to be completed within the specified time periods. The JLF and CDR Cell shall optimally utilise the specified time periods so that the aggregate time limit is not breached under any mode of restructuring. If the JLF/CDR takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilise the saved time for other activities provided the aggregate time limit is not breached.

4.3 The general principle of restructuring shall be that the shareholders bear the first loss rather than the debt holders. With this principle in view and also to ensure more 'skin in the game' of promoters, JLF/CDR may consider the following options when a loan is restructured:

- Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
- Promoters infusing more equity into their companies;
- Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of company. This shall enable a change in management control, should lenders favour it.

4.4 In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets shall be stipulated as a condition for restructuring the account, if under the TEV study the account is likely to become viable on hiving off of non-core activities and other assets.

4.5 For restructuring of dues in respect of listed companies, lenders shall be ab-initio compensated for their loss/sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the

extant regulations and statutory requirements. In such cases, the restructuring agreement shall not incorporate any right of recompense clause. However, if the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall. For unlisted companies, the JLF shall have option of either getting equities issued or incorporate suitable 'right to recompense' clause.

4.6 In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the JLF/CDR could consider various options like:

- Prior agreement in the ICA among the above classes of lenders regarding repayments, say, as per an agreed waterfall mechanism;
- A structured agreement stipulating priority of secured creditors;
- Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

The above is only an illustrative list and the JLF may decide on a mutually agreed option. It also needs to be emphasised that while one lender may have a better security interest when it comes to one borrower, the case may be vice versa in the case of another borrower. So, it shall be beneficial if lenders appreciate the concerns of fellow lenders and arrive at a mutually agreed option with a view to preserving the economic value of assets. Once an option is agreed upon, the lender having the largest exposure may take the lead in ensuring distribution according to agreed terms once the restructuring package is implemented.

4.7 As regards prudential norms and operational details, RBI's guidelines on CDR Mechanism, shall be applicable to the extent that they are not inconsistent with these guidelines.

5. Prudential Norms on Asset Classification and Provisioning

5.1 While a restructuring proposal is under consideration by the JLF/CDR, the usual asset classification norm would continue to apply. The process of re-classification of an asset shall not stop merely because restructuring proposal is under consideration by the JLF/CDR.

5.2 However, as an incentive for quick implementation of a restructuring package, the special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these

guidelines, subject to adherence to the overall timeframe for approval of restructuring package detailed in paragraphs 3.3 and 3.4 above and implementation of the approved package within 90 days from the date of approval. The asset classification status as on the date of formation of JLF shall be the relevant date to decide the asset classification status of the account after implementation of the final restructuring package. As advised to NBFCs, in these Directions, the special asset classification benefit as above shall however be withdrawn for all restructurings with effect from April 1, 2015 with the exception of provisions related to changes in Date of Commencement of Commercial Operations (DCCO) in respect of infrastructure and non-infrastructure project loans.

5.3 As a measure to ensure adherence to the proposals made in these guidelines as also to impose disincentives on borrowers for not maintaining credit discipline, accelerated provisioning norms (as detailed in the guidelines) are being introduced.

Guidelines for Asset Liability Management (ALM) system in NBFCs

In the normal course, NBFCs are exposed to credit and market risks in view of the asset-liability transformation. With liberalisation in Indian financial markets over the last few years and growing integration of domestic markets with external markets and entry of MNCs for meeting the credit needs of not only the corporates but also the retail segments, the risks associated with NBFCs' operations have become complex and large, requiring strategic management. NBFCs are now operating in a fairly deregulated environment and are required to determine on their own, interest rates on deposits, subject to the ceiling of maximum rate of interest on deposits they can offer on deposits prescribed by the Bank; and advances on a dynamic basis. The interest rates on investments of NBFCs in government and other securities are also now market related. Intense competition for business involving both the assets and liabilities has brought pressure on the management of NBFCs to maintain a good balance among spreads, profitability and long-term viability. Imprudent liquidity management can put NBFCs' earnings and reputation at great risk. These pressures call for structured and comprehensive measures and not just *ad hoc* action. The managements of NBFCs have to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. NBFCs are exposed to several major risks in the course of their business - credit risk, interest rate risk, , equity / commodity price risk , liquidity risk and operational risk. It is, therefore, important that NBFCs introduce effective risk management systems that address the issues relating to interest rate and liquidity risks.

2. NBFCs shall address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. ALM, among other functions, is also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate equity and commodity price risks of major operators in the financial system that shall be closely integrated with the NBFCs' business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

3. The broad guidelines in respect of interest rate and liquidity risks management systems in NBFCs, which form part of the Asset-Liability Management (ALM) function are as enumerated hereafter. The initial focus of the ALM function shall be to enforce the risk management discipline i.e. managing business after assessing the risks involved. The objective of good risk management systems shall be that these systems will evolve into a strategic tool for NBFCs management.

4. The ALM process rests on three pillars:

- ALM Information Systems
 - Management Information Systems
 - Information availability, accuracy, adequacy and expediency
- ALM Organisation
 - Structure and responsibilities
 - Level of top management involvement
- ALM Process
 - Risk parameters
 - Risk identification
 - Risk measurement
 - Risk management
 - Risk policies and tolerance levels.

5. ALM Information Systems

5.1 ALM has to be supported by a management philosophy which clearly specifies the risk policies and tolerance limits. This framework needs to be built on sound methodology with necessary information system as back up. Thus, information is the key to the ALM process. It is, however, recognised that varied business profiles of NBFCs in the public and private sector do not make the adoption of a **uniform ALM System** for all NBFCs feasible. There are various methods prevalent world-wide for measuring risks. These range from the simple Gap Statement to extremely sophisticated and data intensive Risk Adjusted Profitability Measurement methods. However, though the central element for the entire ALM exercise is the availability of adequate and accurate information with expedience; and the systems existing, if any, in some of the major NBFCs do not generate information in the manner required for ALM. Collecting accurate data in a timely manner will be the biggest challenge

before the NBFCs, particularly those lacking full scale computerisation. However, the introduction of base information system for risk measurement and monitoring has to be addressed urgently.

5.2 NBFCs have heterogeneous organisational structures, capital base, asset sizes, management profile, business activities and geographical spread. Some of them have large number of branches and agents/brokers whereas some have unitary offices. Considering the large network of branches and the lack of (an adequate) support system to collect information required for ALM which analyses information on the basis of residual maturity and repricing pattern of liabilities and assets, it will take time for NBFCs in the present state to get the requisite information. In respect of investment portfolio and funds management, in view of the centralised nature of the functions, it would be much easier to collect reliable information. The data and assumptions can then be refined over time as the NBFC management gain experience of conducting business within an ALM framework. The spread of computerisation will also help NBFCs in accessing data.

6. ALM Organisation

6.1 a) Successful implementation of the risk management process shall require strong commitment on the part of the senior management in the NBFC, to integrate basic operations and strategic decision making with risk management. The Board shall have overall responsibility for management of risks and shall decide the risk management policy of the NBFC and set limits for liquidity, interest rate and equity price risks.

b) The Asset - Liability Committee (ALCO) consisting of the NBFC's senior management including Chief Executive Officer (CEO) shall be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the NBFC (on the assets and liabilities sides) in line with the NBFC's budget and decided risk management objectives.

c) The ALM Support Groups consisting of operating staff shall be responsible for analysing, monitoring and reporting the risk profiles to the ALCO. The staff shall also prepare forecasts (simulations) showing the effects of various possible changes in

market conditions related to the balance sheet and recommend the action needed to adhere to NBFC's internal limits.

6.2 The ALCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks. Each NBFC will have to decide on the role of its ALCO, its responsibility as also the decisions to be taken by it. The business and risk management strategy of the NBFC shall ensure that the NBFC operates within the limits / parameters set by the Board. The business issues that an ALCO shall consider, inter alia, shall include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services/product, etc. In addition to monitoring the risk levels of the NBFC, the ALCO shall review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO shall also articulate the current interest rate view of the NBFC and base its decisions for future business strategy on this view. In respect of the funding policy, for instance, its responsibility shall be to decide on source and mix of liabilities or sale of assets. Towards this end, it will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed **vs** floating rate funds, wholesale **vs** retail deposits, money market **vs** capital market funding, domestic **vs** foreign currency funding, etc. Individual NBFCs shall have to decide the frequency of holding their ALCO meetings.

6.3 **Composition of ALCO**

The size (number of members) of ALCO shall depend on the size of each institution, business mix and organisational complexity. To ensure commitment of the Top Management and timely response to market dynamics, the CEO/CMD/President or the Director shall head the Committee. The Chiefs of Investment, Credit, Resources Management or Planning, Funds Management / Treasury, International Business and Economic Research can be members of the Committee. In addition, the Head of the Technology Division shall also be an invitee for building up of MIS and related computerisation. Large NBFCs may even have Sub-committees and Support Groups.

6.4 **Committee of Directors**

The Management Committee of the Board or any other Specific Committee constituted by the Board shall oversee the implementation of the system and review its functioning periodically.

6.5 **ALM Process:**

The scope of ALM function can be described as follows:

- Liquidity risk management
- Management of market risks
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analysing 'What if scenario' and preparation of contingency plans

The guidelines given in this note mainly address Liquidity and Interest Rate risks.

7. **Liquidity Risk Management**

7.1 Measuring and managing liquidity needs are vital for effective operation of NBFCs. By ensuring an NBFC's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. NBFCs management shall measure not only the liquidity positions of NBFCs on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that assets commonly considered as liquid, like Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. 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.

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

- i. 1 day to 30/31 days (One month)
- ii. Over one month and upto 2 months
- iii. Over two months and upto 3 months
- iv. Over 3 months and upto 6 months
- v. Over 6 months and upto 1 year
- vi. Over 1 year and upto 3 years
- vii. Over 3 years and upto 5 years
- viii. Over 5 years

7.3 NBFCs holding public deposits are required to invest up to a prescribed percentage (15% as on date) of their public deposits in approved securities in terms of liquid asset requirement of Section 45-IB of the RBI Act, 1934. Residuary Non-Banking Companies (RNBCs) are required to invest up to 80% of their deposits in a manner as prescribed in the Directions issued under the Act *ibid*. There is no such requirement for NBFCs which are not holding public deposits. Thus various NBFCs including RNBCs 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 the investment 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'. 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 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 (eg; 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.

7.4 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.

7.5 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 Non-Banking Supervision of RBI under whose jurisdiction the registered office of the company is located.

7.6 Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches upto 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. NBFCs, however, are expected to monitor their cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board / Management Committee. The mismatches (**negative gap**) during 1-30/31 days in normal course shall not exceed 15% of the cash outflows in this time bucket. If an NBFC, in view of its current asset -liability profile and the consequential structural mismatches, needs higher tolerance level, it could operate with higher limit sanctioned by its Board / Management Committee giving specific reasons on the need for such higher limit. The discretion to allow a higher tolerance level is intended for a temporary period, i.e. till **March 31, 2002**.

7.7 A **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. While determining the likely cash inflows / outflows, NBFCs have to make a number of assumptions according to their asset - liability profiles. While determining the tolerance levels, the NBFCs shall take into account all relevant factors based on their asset-liability base, nature of business, future strategy, etc. The RBI is interested in ensuring that the tolerance levels are determined keeping all necessary factors in view and further refined with experience gained in Liquidity Management.

7.8 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.

8. Currency Risk

Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to the risk profile of NBFCs' balance sheets having foreign assets or liabilities. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility has rendered the NBFCs' balance sheets vulnerable to exchange rate movements.

9. Interest Rate Risk (IRR)

9.1 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 the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when NBFCs acquire sufficient expertise and sophistication in acquiring and handling MIS.

9.2 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 RBI changes in the interest rates/Bank Rate;
- iv. it is contractually pre-payable or withdrawal before the stated maturities.

9.3 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 is basically floating. The interest rates on advances received could be repriced any number of occasions, corresponding to the changes in PLR.

The Gaps may be identified in the following time buckets:

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

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

9.4 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.

9.5 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.

9.6 RBI intends to introduce capital adequacy for market risks in due course.

10. **General**

10.1 The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices I & II is the benchmark. NBFCs which are better equipped to reasonably estimate the behavioral 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 Non-Banking Supervision of RBI under whose jurisdiction the registered office of the company is located. These notes may contain 'what if scenario' analysis under various assumed conditions and the contingency plans to face various adverse developments.

10.2 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.

10.3 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.

Maturity Profile - Liquidity

<u>Heads of Accounts</u>	<u>Time-bucket category</u>
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) Term deposits from public	As per the residual maturity.
b) Inter Corporate Deposits	These, being institutional/wholesale deposits, shall be slotted as per their residual maturity
c) Certificates of Deposit	As per the residual maturity.
5. Borrowings	
a) Term money borrowings	As per the residual maturity
b) From RBI, Govt. & others	-do-
c) Bank borrowings in the nature of WCDL, CC etc	Over six months and up to one year
6) Current liabilities and provisions:	
a) Sundry creditors	As per the due date or likely timing of cash outflows. A behavioral analysis could also be made to assess the trend of outflows and the amounts slotted accordingly.
b) Expenses payable (other than interest)	As per the likely time of cash outflow.
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 5 years' time-bucket as these do not involve any cash outflow.
d) Interest payable on bonds/deposits	In respective time buckets as per the due date of payment.
e) Provisions for NPAs	The amount of provision may be netted out from the gross amount of the NPA portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time-buckets.
f) Provision for Investments portfolio	The amount may be netted from the gross value of investments portfolio and the net

	investments be shown as inflow in the prescribed time-slots. In case provisions are not held security-wise, the provision may be shown on "over 5 years" time bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.
B. Inflows	
1. Cash	In 1 to 30 /31 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 in 1 to 30 day time bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
4. Investments (net of provisions)	
a)Mandatory investments	As suitable to the NBFC
b)Non Mandatory Listed	"1 day to 30/31 days (One month)" Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs
c)Non Mandatory unlisted securities (e.g. shares, etc.)	"Over 5 years"
d) Non-mandatory unlisted securities having a fixed term maturity	As per residual maturity
e) Venture capital units	In the 'over 5 year' time bucket.
5. In case Trading book is followed	
Equity shares, convertible preference shares, non-redeemable/perpetual preference shares, shares of subsidiaries/joint ventures and units in open ended mutual funds and other investments .	(i) Shares classified as "current" investments representing trading book of the NBFC may be shown in time buckets of "1 day to 30 days (One month)" "Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs .
	(ii) Shares classified as "long term" investments may be kept in over "5 years time" bucket. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.
6. Advances (performing)	
a) Bill of Exchange and promissory notes discounted and rediscounted	As per the residual usance of the underlying bills.
b) Term loans (rupee loans only)	The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule.

c) Corporate loans/short term loans	As per the residual maturity
7. Non-performing loans (May be shown net of the provisions, interest suspense held)	
a) <u>Sub-standard</u>	
i) All overdues and instalments of principal falling due during the next three years	In the 3 to 5 year time-bucket.
ii) Entire principal amount due beyond the next three years	In the over 5 years time-bucket
b) <u>Doubtful and loss</u>	
i) All instalments of principal falling due during the next five years as also all overdues	In the over 5 year time-bucket
ii) Entire principal amount due beyond the next five years	In the over 5 year time-bucket
8. Assets on lease	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
9. Fixed assets (excluding leased assets)	In the 'over 5 year' time-bucket.
10. Other assets	
(a) Intangible assets and items not representing cash inflows.	In the 'over 5 year' time-bucket.
(b) Other items (such as accrued income, other receivables, staff loans, etc.)	In respective maturity buckets as per the timing of the cashflows.
C. Contingent liabilities	
(a) Letters of credit/guarantees (outflow through devolvment)	Based on the past trend analysis of the devolvments vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvmentsshall be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvments 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.

- a. All overdue liabilities be shown in the 1 to 30/31 days time bucket.
- b. Overdue receivables on account of interest and instalments of standard loans / hire purchase assets / leased rentals shall be slotted as below:

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

D. Financing of gaps:

The negative gap (i.e. where outflows exceed inflows) in the 1 to 30/31 days time-bucket shall not exceed the prudential limit of 15 % of outflows of each time-bucket and the cumulative gap upto the one year period shall not exceed 15% of the cumulative cash outflows upto one year period. In case these limits are exceeded, the measures proposed for bringing the gaps within the limit, shall be shown by a footnote in the relative statement.

Interest Rate Sensitivity

<u>Heads of accounts</u>	<u>Rate sensitivity of time bucket</u>
<u>LIABILITIES</u>	
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. <u>Deposits</u>	
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. <u>Borrowings:</u>	
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.

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