Revised regulatory framework for NBFCs

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- We are a team of consultants, advisors & qualified professionals having recently completed 25 years of practice.

Our Organization's Credo:

Focus on capabilities; opportunities follow

New regulatory regime for NBFCs

New regulatory regime for NBFCs

- The 10th November, 2014 circular revising the regulatory framework by the RBI initiated a perestroika of NBFC regulatory reforms
- Primarily, following major changes were talked about:
  - Definition of NBFC-ND-SI changed - to include only NBFC-ND with asset size of Rs. 500 crore and above
    - Determination of asset size for NBFC-ND-SI to include total assets of NBFCs in a ‘group’. Group companies defined
  - Prudential norms applicable based on categories of asset size
  - Capital requirements increased with 10% Tier 1 capital for NBFC-D and NBFC-ND-SI
  - Change in asset classification norms
  - Increased provision for standard assets to 0.40%
  - Extensive corporate governance controls on NBFCs
  - Mention about permissibility of one-time adjustment of repayment schedule, not amounting to restructuring
- However, the necessary notifications were waiting for all these months

Finally, notifications on 27th March 2015

- After a long wait for nearly 4 ½ months, the Notifications were finally issued on 27th March (much after close of business, approx 8.30 pm)
- The corporate governance guidelines were still not there in the text uploaded on 27th March
- The new Directions are supposedly effective with "immediate effect"
- Several of the provisions call for compliance on 31st March itself.
- Are we to read the 27th March notification *along with* 10th November circular on *in place of* it?
  - Informal discussions with the RBI suggest it is to be read along

Key features of the revised regulatory framework

- Different regulatory instruments remain intact:
  - March 27 Directions only override Prudential Directions 2007
  - Hence, separate Directions for MFIs, CICs, etc remain applicable
- Applicability of the regulations based on "public funds"
  - Public funds is not the same as "public deposits"
  - All ICDs are also public funds
  - Additionally
    - Commercial paper, bank finance, public deposits and debentures are public funds
- New regulation on leverage limit on NSI companies
  - Leverage, that is, TOL/NOF limited to 7 times
  - Leverage includes guarantees as well

Difference from Usha Thorat & Nachiket More Committee recommendations

- Usha Thorat panel
  - Deregistration of systematically unimportant companies, so as to clear the mass in the NBFC regulations.
  - Liquidity Management
- Nachiket More Committee recommendations
  - NBFCs be notified as ‘secured creditors’ under the SARFAESI Act as to allow them access to the DRT Forum for recovery of their debts
    - This is expected to be take care of as per Budget 2015 announcement

Requirement of minimum NOF

- All NBFCs, irrespective of their date of existence are required to attain a minimum NOF of Rs. 2 crores.
  - Presently the same was applicable for NBFCs registered with the RBI from 21st April, 1999.
  - For NBFCs in existence on before 21st April, 1999, the NOF had been retained at Rs. 25 lakhs.

- Existing NBFCs with NOF of less than 2 crores are required to submit a statutory auditor's certificate certifying compliance to the revised levels at the end of each of the two financial years as given in the adjacent table.

- Minimum NOF of Rs. 200 lakh to be attained by the end of March 2017, as per the milestones given below:
  - Rs. 100 lakh by the end of March 2016
  - Rs. 200 lakh by the end of March 2017

Meaning of NBFC-ND-SI changed

- Currently non-deposit accepting NBFCs with asset size of Rs. 100 crores or more are classified as NBFC-ND-SI.

- Henceforth, NBFCs-ND which have **asset size of Rs. 500 crore and above** as per the last audited balance sheet would be classified as NBFC-ND-SI for the purpose of administering prudential norms.
  - Rs 500 crores is a reasonably big size
  - Expectedly, a whole lot of companies will go out of complying with all or some of the prudential norms requirement

Multiple NBFCs in the same Group

- For ascertaining asset size of NBFCs-ND-SI, the total assets of **NBFCs in a group** (i.e. part of a corporate group or are floated by a common set of promoters), including NBFCs-D, if any, will be aggregated.
  - That is, asset size will be clubbed as "group" level
- Accordingly consolidation will fall within the asset sizes of the two categories viz.
  - NBFC-ND (with asset size of less than Rs, 500 crores); and
  - NBFC-ND-SI (with asset size of Rs. 500 crore or more).
- Regulations as applicable to the two categories will be applicable to **each** of the NBFC-ND within the group, irrespective of its individual asset size.
- For NBFC-D, all applicable regulations would apply.

Though it was a part of the November, 2014 framework but does not form a part of the March, 2015 notification

'Companies in the Group' defined

- The word "group" has a broad definition
- "Companies in the Group", shall mean an arrangement involving two or more entities related to each other through any of the following relationships:
  - Subsidiary – parent (defined in terms of AS 21),
  - Joint venture (defined in terms of AS 27),
  - Associate (defined in terms of AS 23),
  - Promoter - promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies,
  - A related party (defined in terms of AS 18),
  - Common brand name, and
  - Investment in equity shares of 20% and above
- The word "group" would take the definition of applicable Accounting Standards.
  - Accounting standards define "group" to mean holding, subsidiary and fellow subsidiaries
- However, for determining the asset size, all companies treated as "group companies" should be financial companies
  - That is, no need to club assets of non-financial companies

Different definitions of "group"

- RBI Act
  - Companies in the same group defined with reference to Companies Act 1956
    - Will still refer to the 1956 Act, as there is no similar definition in CA 2013
    - Hence, definition in sec 370 (1B) of the Companies Act will prevail
- NOFHC guidelines
- 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 subsidiary or holding company of such body corporate;
  - 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;
  - 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;
  - Joint venture (as defined in terms of AS 23) with the promoter;
  - Associate (as defined in terms of AS 27) of the promoter;
  - Related party (as defined in terms of AS 18) of the promoter; and
- (iv) in case the promoter is an individual:
  - 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;
  - any body corporate in which a body corporate as provided in (A) above holds ten per cent or more, of the equity share capital;
  - 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[21] 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;

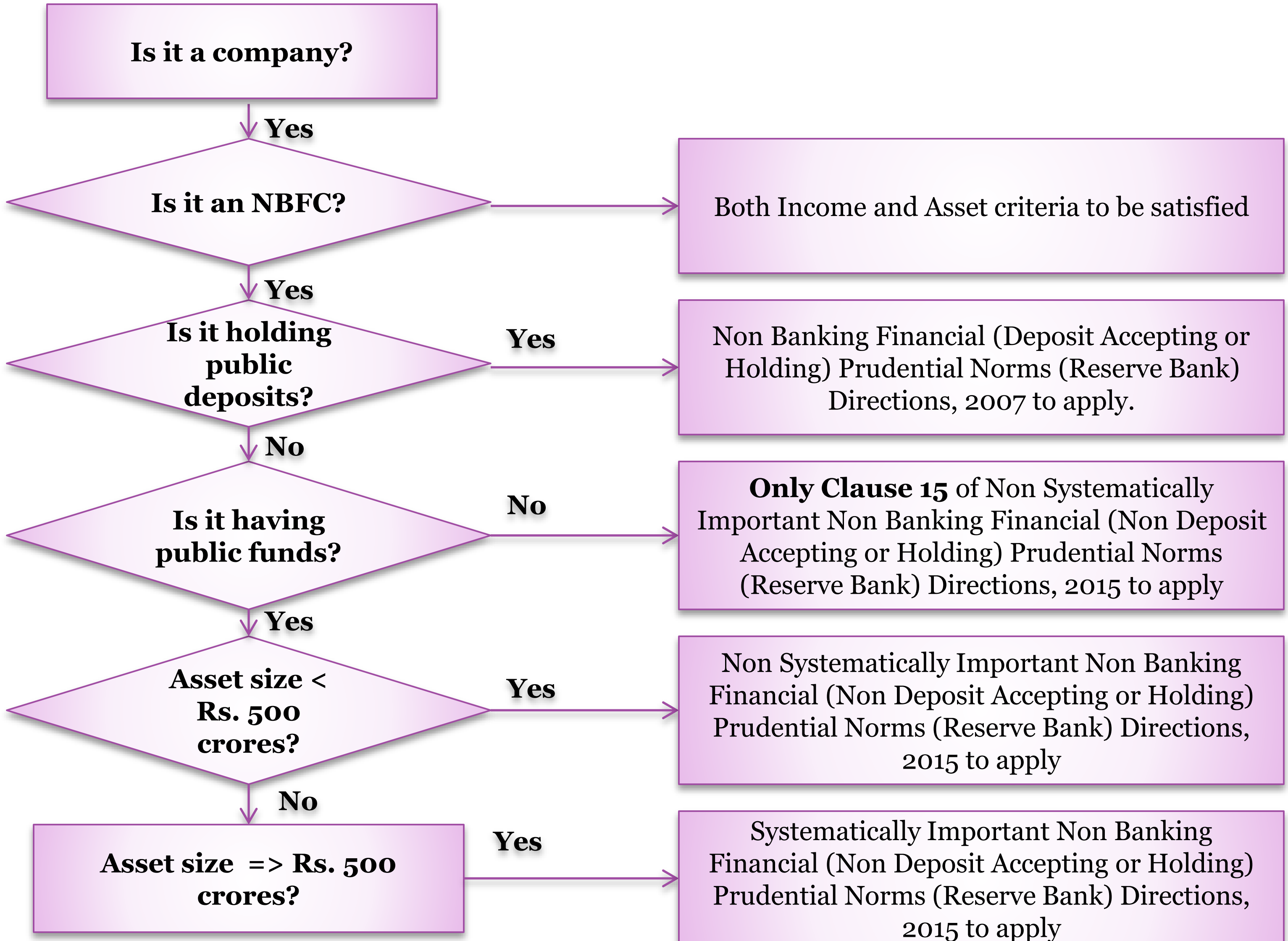
Relevance of "companies in the same group"

- Aggregation of assets for finding systematic importance
- Deduction from Tier 1 capital
  - Exposures in the group exceeding 10% of "owned funds" to be deducted from Tier 1
    - Notably, definition of "group" in the RBI Act remains unchanged
- Concentration limits
  - Apply for loans/investments to a borrower, or borrower "group"
    - In case of NBFCs held by NOFHCs, there is a separate definition of "promoter group"

Rating and Deposit acceptance for Asset Finance Companies

- All unrated AFCs accepting public deposits are required to get themselves rated to be eligible for renewing existing deposits or accepting fresh deposits.
  - Presently, an unrated AFC complying with all the prudential norms and maintaining CRAR of not less than 15%, is allowed to accept public deposits not exceeding 1.5 times of its NOF or up to Rs. 10 crore whichever is lower
  - Rated AFCs and complying with all the prudential regulations were allowed to accept deposits up to 4 times of their NOF
- Rating to be obtained by 31st March, 2016
  - In the intervening period these AFCs can only renew existing deposits on maturity, but cannot accept fresh deposits, till they obtain an investment grade rating.
- All rated AFCs will be allowed to accept deposits up to 1.5 times of their NOF.

Applicability of prudential norms



Applicability of Prudential Norms

- NBFC-ND with asset size less than Rs. 500 crores are exempted from:
  - Some companies are exempted from the requirement of maintaining CRAR; and
  - complying with Credit Concentration Norms;
  - leverage ratio of 7 times is being introduced

- The following categories have been created:
  - **Asset size below Rs. 500 crore, no public funds, no customer interface:** No prudential norms or conduct-of-business regulations (*i.e. KYC, fair practices code (FPC) etc.)*
  - **Asset size below Rs. 500 crore, no public funds, having customer interface:** Only Conduct of business regulations applicable. No prudential norms

Applicability of Prudential Norms *contd.*

- **Asset size below Rs. 500 crore, having public funds, no customer interface:** Limited Prudential regulations but no conduct of business regulations.

- **Asset size below Rs. 500 crore, having public funds and customer interface:** Limited Prudential regulations and conduct of business regulations.

- **Asset size Rs. 500 crore or above:** Prudential regulations as applicable to NBFCs-ND-SI. Conduct of business regulation will be applicable if customer interface exists.

- 'Public Funds' to include funds raised directly or indirectly through:
  - public deposits, commercial papers, debentures, inter-corporate deposits and bank finance,
  - 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

Important provisions applicable to NBFC-ND-SI [March 27 Notification]

- Regulations with respect to Income Recognition, Asset Classification Requirements [Para 3, 4, 5, 6, 8, 9]
- Provisioning requirements for standard and substandard assets [Para 9, 10]
- Balance sheet, accounting year, etc [Para 11, 12, 13]
- Submission of certificate from Statutory Auditors [para 15]
- Requirements with respect to maintenance of CRAR [para 16]
- Provisions pertaining to lending against gold [paras 18-21]
- Provisions pertaining to lending against securities [para 23]
- Credit concentration limits [para 24]
- Restrictions with respect to opening of branches [para 22]
- Intimation of change in directors, auditors, principal officers [para 25]
- Bar on being partners in firms. LLPs [para 26]
- Norms for restructuring of advances and flexible structure [para 27]
- Provisions pertaining to flexible structuring of long term project loans to Infrastructure and Core Industries [para 28]
- Submission of Branch Info Return [para 29]

Prudential Regulations for NBFCs-D and NBFCs-ND-SI

1) Tier I Capital:

- Tier I capital revised to a minimum of 10% irrespective of the class of NBFC.
    - At present the all NBFCs-D and NBFCs-ND with asset size Rs.100 crore and above are required have Tier I capital of not less than 7.5%, for IFC - Tier 1 capital cannot be less than 10% and for NBFCs primarily engaged in lending against gold jewellery - minimum Tier 1 capital of 12%
    - CRAR maintained at 15%
- Compliance to the revised Tier 1 capital will be phased in as follows:
    - 8.5% by end of March 2016.
    - 10% by end of March 2017

Prudential Regulations for NBFCs-D and NBFCs-ND-SI

2) Asset Classification

- Asset classification norms for NBFCs-ND-SI and NBFCs-D are being changed, in line with that of banks
  - At present, an asset is classified as NPA when it has remained overdue for 6 months or more for loans; and overdue for 12 months or more in case of lease rental and hire purchase instalments.
- Asset classification is being implemented in a phased manner over a period of 3 years beginning 31st March, 2016.

Prudential Regulations for NBFCs-D and NBFCs-ND-SI

- The following categories of asset classification has been provided:
  - Determination of NPA for Lease Rental and Hire-Purchase Assets
  - Determination of NPA for other than Lease Rental and Hire-Purchase Assets
  - Determination of sub-standard asset for all loan and hire-purchase and lease assets
  - Determination of doubtful asset for all loan and hire-purchase and lease assets
- For the existing loans, a one-time adjustment of the repayment schedule, which shall not amount to restructuring will, however, be permitted.

Prudential Regulations for NBFCs-D and NBFCs-ND-SI

3) Provisioning for Standard Assets

- Revised to 0.40% for NBFCs-ND-SI and for all NBFCs-D;
  - Presently it is at 0.25% of the outstanding.
  - This change is in line with that of banks
- The compliance to the revised norm will be phased in as given below:
  - 0.30% by the end of March 2016
  - 0.35% by the end of March 2017
  - 0.40% by the end of March 2018

Prudential Regulations for NBFCs-D and NBFCs-ND-SI

4) Credit / Investment Concentration Norms for AFCs

- The credit concentration norms for AFCs are now being brought in line with other NBFCs.
- For all new loans excluding those already sanctioned - Applicable with immediate effect.
- All existing excess exposures would be allowed to run off till maturity.

Capital adequacy requirement

- Tier 1 capital requirement increases to 8.5% on 31st March 2016, and 10% in 31st March 2017
- Basel II or Basel III definitions are seemingly not being applied to NBFCs

Loan against shares

- Para 23 reiterates an earlier circular of RBI on loan against shares
- Clarification dated 10th April 2015 says the provision is applicable only in case of listed shares
- However para 4.1 of the circular of March 21, 2014 does talk about multiple leveraging
  - While this is targeted more for the lending NBFC to assess the qualify of equity of the borrower, this may operate as a restraint on lending against promoter equity

Important provisions applicable to NBFC-ND-Non SI

- Regulations with respect to Income Recognition, Asset Classification and Provisioning Requirements
- Submission of a certificate from Statutory Auditors
- Requirements with respect to maintenance of CRAR
- Applicability of leverage ratio – 7 times
- Provisions pertaining to lending against gold
- Provisions pertaining to lending against shares
- Credit concentration limits (only which are held by NOFHC)
- Restrictions with respect to opening of branches
- Norms for restructuring of advances
- Provisions pertaining to flexible structuring of long term project loans to Infrastructure and Core Industries
- Submission of Branch Info Return
- For the purpose of "Framework for Revitalizing Distressed Assets in the Economy" – Notified NBFCs would mean those NBFCs having net assets of Rs. 100 crores or above
  - This would however include all NBFC Factors

Details of requirements applicable 1/6

- Income recognition requirements –
  - Income to be recognised based on recognised accounting standards
    - Income on NPAs should be recognised on cash basis, any income recognised before the asset became NPA remaining unrealised shall be reversed
  - Income from dividend on shares and mutual funds shall be recognised on cash basis
  - Income from bonds and debentures of corporate bodies and from Government securities/ bonds may be recognised on accrual basis
  - Income from securities of corporate bodies or PSUs, the payment of interest of repayment of principal of which has been guaranteed by the Central Government or State Government, may be recognised on accrual basis

Details of requirements applicable 2/6

- Accounting Standards –
  - AS and Guidance Notes issued by the ICAI to be followed
    - Where the provisions of AS are inconsistent with the directions – Directions to prevail
- Accounting of investments –
  - The Board of Directors of every company to frame investment policy
    - It should contain the criteria to classify current and long term investments
    - Classification of current and long term investments should be done at the time of making the investment
  - The quoted investments should be group into certain classes, as specified in the Directions, for the purpose of valuation
    - **Quoted instruments** to be valued at **cost or market value**, whichever is lower
  - **Unquoted investments** to be valued at **cost or break up value**, whichever is lower
  - **Unquoted preference shares**, in the nature of current investments, shall be valued at **cost or face value**, whichever is lower
  - Investments in unquoted Govt. Securities or Govt. Guaranteed bonds shall be the **carrying cost**.
  - **Unquoted units of mutual funds** in the nature of current investments to be done based on the **NAV**
  - **Commercial papers** to be valued at the **carrying cost**
  - **Long term investments** shall be valued in accordance with **AS – 13**, issued by the ICAI

Details of requirements applicable 3/6

- Policy on Demand/ Call Loans
  - Board of Directors to frame a policy on Demand/ Call Loans
    - Cut off date within which the repayment of demand or call loan shall be demanded or called up should be mentioned in the policy
    - Rate of interest to be charged should be laid down in the policy
- Asset Classification –
  - Standard Assets
  - Sub-standard Assets
  - Doubtful Assets
  - Loss Assets
- Provisioning requirements –
  - Discussed earlier in this presentation
- Disclosure in balance sheet –
  - Provisions for bad and doubtful debts
  - Provisions for depreciation in investments
- Schedule to the balance sheet –
  - Company to append to its balance sheet a schedule to be drawn in the format prescribed in Annex 1 of the Directions

Details of requirements applicable 4/6

- Submission of certificate from Statutory Auditor to the RBI –
  - Stating that it is engaged in the business non banking financial activity and holds the CoR under section 45-IA and is eligible to hold it
  - Indicating the asset/ income pattern of the Company for making it eligible for classification as Asset Finance Company, Investment Company or Loan Company
  - Within 1 month from the date of finalization of the Balance Sheet and in any case not later than 30th December of that year.

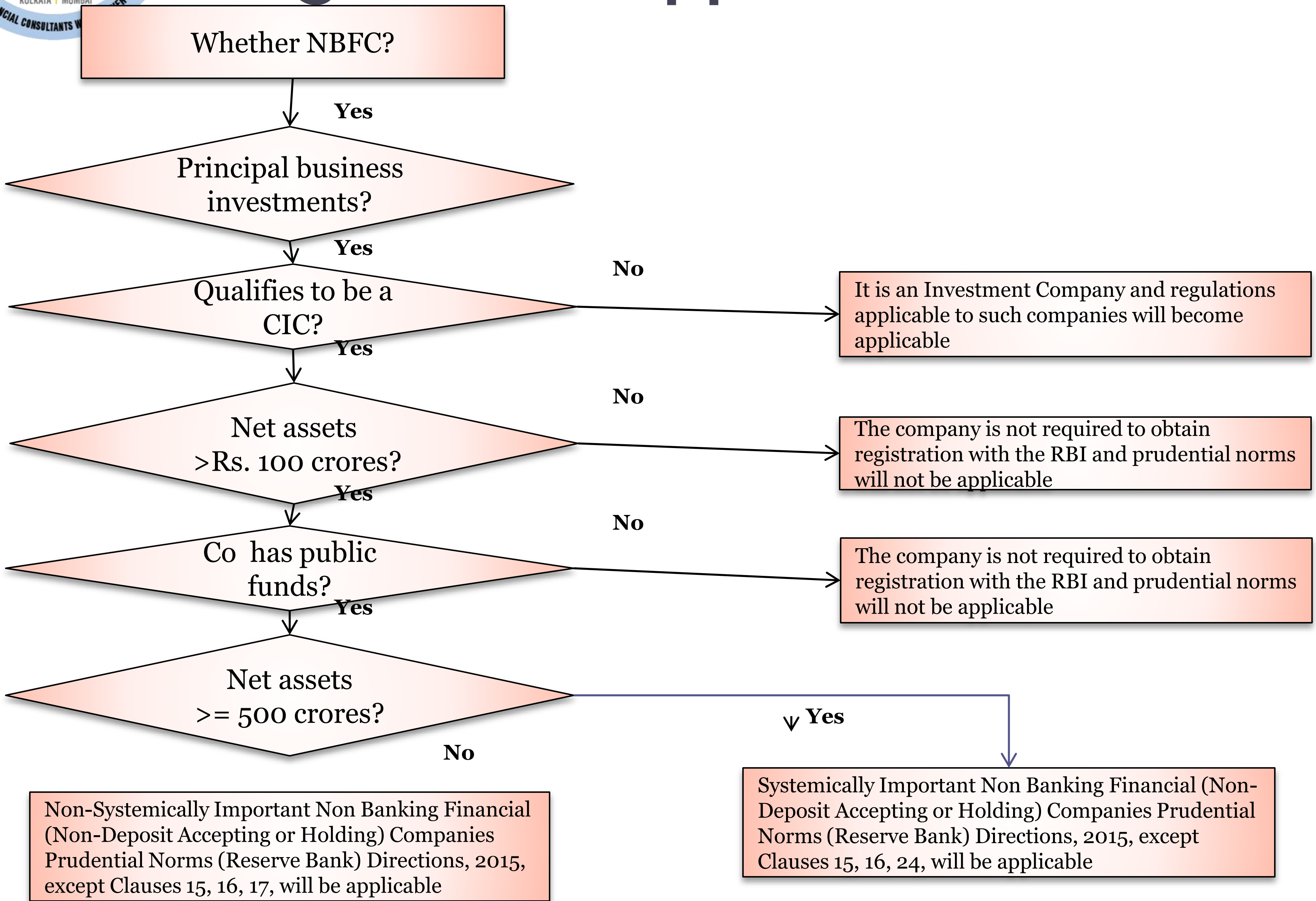
Details of requirements applicable 5/6

- Capital Adequacy Requirements –
  - CRAR of 15% (Applicable only to Non-SI, MFI & IFC)
  - Tier I should not be less than 10%, in case of an IFC
  - Tier II in case of NBFC – MFI should not exceed Tier I
- Lending against gold –
  - Separate set of directions governing gold lending
- Information with respect to change of address, directors, auditors etc –
  - The company to inform the RBI the following within 1 month from the date of occurrence –
    - the complete postal address, telephone number/s and fax number/s of the registered/corporate office
    - the names and residential addresses of the directors of the company;
    - the names and the official designations of its principal officers;
    - the names and office address of the auditors of the company; and
    - the specimen signatures of the officers authorised to sign on behalf of the company

Details of requirements applicable 6/6

- Norms for restructuring of advances –
  - As per the guidelines dated 23rd January, 2014
- Submission of "Branch Info" Return –
  - All NBFCs having total assets of more than Rs. 50 crores to submit Branch Information on quarterly basis within 10 days from the expiry of relative quarter

Regulations applicable to CICs



Other Directions which are still applicable

- The only Directions which have been overridden are the 2007 Prudential Direction
- Hence, the following remain applicable:
  - Auditors Report Directions 2008
  - KYC Guidelines
  - Approval of Acquisition or Transfer of Control Directions, 2014
  - NBFC MFI Directions 2011
  - NBFC Factor Directions 2012
  - NBFC CIC Directions, 2011

Changes in Corporate Governance and Disclosure Norms

Though it was a part of the November, 2014 directions, but the same does not form a part of the final notification of March, 2015

Board Committees

- All NBFC-D and NBFC-ND-SI are now mandatorily required to constitute:
  - Audit Committee,
  - Nomination Committee
  - Risk Committee
- Under the Act, 2013, constitution of the Audit Committee and NRC is mandatory for only:
  - Listed Companies; and
  - Public Companies with:
    - Paid up capital of Rs. 10 crore or more,
    - Turnover of Rs. 100 crore or more or
    - Aggregate outstanding loans or borrowings or debentures or deposits exceeding Rs. 50 crore or more.
- However, all NBFC-D and NBFC-ND-SI, irrespective of whether they are public or private, are required to constitute these committees.

Audit Committee

- The formation of the Audit Committee was mandatory under RBI Regulations earlier as well
- Shall consist of 3 members of the Board.
  - In absence of any other requirement, the composition must comply with Act, 2013 and Listing Agreement (in case of listed NBFC)
  - Majority independent under the Act, 2013 and 2/3rd independent under Listing Agreement
- The Audit Committee must ensure that an Information Systems Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the company.
  - In addition, the responsibilities as laid down under the Act, 2013 and/ or Listing Agreement will also need to be complied with

Nomination Committee

- Constitution of this Committee was earlier recommendatory by the RBI for NBFC-D with deposit size of Rs 20 crore and above and NBFC-ND-SI
  - Under the Act, 2013 the Nomenclature of the Committee shall be 'Nomination and Remuneration Committee', which shall perform dual responsibilities of a Nomination Committee as also a Remuneration Committee

- Its constitution shall, in the absence of any provision laid under the RBI Circular, will be as per the Act, 2013 and / or Listing Agreement, which is, minimum 3 NEDs with half as IDs.

- The Committee shall ensure 'fit and proper' status of proposed/existing Directors in addition to the responsibilities laid down under the Act, 2013 and Listing Agreement.

Risk Management Committee

- Constitution of this Committee was earlier recommendatory by the RBI for NBFC-D with deposit size of Rs 20 crore and above and NBFC-ND-SI
  - The Act, 2013 does not lay down its mandatory constitution.
  - However, the Listing Agreement requires constitution of a Risk Management Committee only for the top 100 listed companies by market capitalisation
- Would be responsible to manage the integrated risk.
- For Listed NBFCs, composition to be as per Listing Agreement, in the absence RBI provisions
  - As per Listing Agreement - composition shall be as decided by the Board with Board members forming a majority. The Chairman of the committee shall be a Board Member.

Mandatory rotation of Audit Partner

- All NBFC-D and NBFC-ND-SI are now mandatorily required to **rotate the audit partners of their statutory audit firm** every 3 years so that same partner does not conduct audit of the company continuously for more than a period of 3 years.
  - This is different from the rotation of auditors, as applicable to certain classes of companies under the Act, 2013
  - The Act also has a provision relating to rotation of auditing partner and his team which can be decided by the members. However it is a non-mandatory provision (Sec. 139 (3))
- The audit partner so rotated will be eligible for conducting the audit of the NBFC after an interval of 3 years, if the NBFC, so decides
- Presently this was a recommendatory provision for NBFCs with public deposits/deposits of Rs 50 crore and above

Policy on 'fit and proper criteria' for Directors

- **All NBFCs-ND-SI and NBFCs-D**, ***with effect from March 31, 2015***, are required to put in place a policy for ascertaining the fit and proper criteria for its directors
  - Under the Act, 2013 and the Listing Agreement, the NRC is required to frame criteria for identifying persons who are qualified to become directors and who may be appointed in senior management.
  - This is an additional requirement for these NBFCs
- The 'fit and proper' criteria is to be ascertained both at the time of appointment of Directors and also on a continuing basis.
- Fit and proper person criteria replicates much of the current guidelines applicable to banks

Who is "fit and proper"

- While there are limitless references to "fit and proper" person, there is no guidance on who or what is fit and proper
- The background goes to an April 2002 Committee (Dr A S Ganguli Committee)
  - http://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?FromDate=04/05/02&SECID=7&SUBSECID=18
- Two main considerations
  - Competence
    - Competence of the individual directors as assessed in terms of formal qualifications, previous experience and track record.
  - Integrity
    - he features like criminal records, financial position, civil actions undertaken to pursue personal debts, refusal of admission to, or expulsion from professional bodies, sanctions applied by regulators or similar bodies, and previous questionable business practices, etc.

BIS recommendations on fit and proper

- The Ganguli committee conspicuously draws reference to BIS statements on supervision of financial conglomerates
- The Fit and Proper criteria was pronounced years ago by BIS in 2009 [http://www.bis.org/publ/bcbs47c4.pdf]
- This talks of competence and capacity as the two main criteria
- Competence
  - formal qualifications, previous experience and track record
- Integrity:
  - criminal records, financial position, civil actions against individuals to pursue personal debts, refusal of admission to, or expulsion from, professional bodies, sanctions applied by regulators of other similar industries, and previous questionable business practices
- Other factors
  - business repute and financial position, and whether such ownership would adversely affect the regulated entity

Policy Guidelines

- Due Diligence
  - To ascertain that the person being appointed / re-appointed as a director is suitable, based on qualification, expertise, track record, integrity and other 'fit and proper' criteria.
- Declaration by Director
  - Every director being appointed and as also every existing director shall, at the time of appointment or annually on 31st March, respectively, declare to the NBFC, requisite details regarding his qualification, list of relatives, relationships with other entities in which he is interested, proceedings against him etc.
  - In case of any change in the declaration, intimation to be given forthwith
  - This declaration is in addition to the declarations to be given by the director under Section 184 and 164 of the Act, 2013 regarding their interest in other entities, contracts and arrangements and their disqualifications.

Policy Guidelines

- Deed of Covenant
  - Additional requirement
  - It is quite clearly an agreement of to be signed both by the director and the company
    - For example, "not evade responsibility in regard to matters entrusted to him / her by the Board"
  - In short, the covenant will expose independent directors to substantial risks
  - Every director and the company to execute the deed which includes declarations to be provided by the director, information to be provided by the company to the director, the roles and responsibilities of the director and the like.

- Age of independent director
  - IDs / NEDs should be between 35 to 70 years of age.
  - No such restriction under the Act, 2013. Listing Agreement provides that ID should not be less than 21 years of age
  - Huge increase in the age limit from 21 years to 35 years to qualify as ID.
  - Further ineligibility has been provided if the ID exceeds the age of 70 years

Declaration by NBFC

- Quarterly statement to be furnished by NBFCs to the RBI on change of Directors certified by the auditors and a certificate from the Managing Director that fit and proper criteria in selection of directors have been followed.

Disclosures in financial Statements

- In addition to the disclosures already made by NBFCs, all NBFC-D and NBFC-ND-SI are required to additionally disclose in the Notes to Accounts the following:
  - Registration/ licence/ authorisation obtained from other financial sector regulators;
  - Ratings assigned by credit rating agencies and migration of ratings during the year;
  - Penalties, if any, levied by any regulator;
  - Information viz., area, country of operation and joint venture partners with regard to Joint Ventures and Overseas Subsidiaries; and
  - Asset liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures as provided in Annexure IV to the Directions.

- Such additional disclosures are required to be made in the Annual Financial Statements with effect from 31st March, 2015

List of declarations and disclosures under the revised Corporate Governance norms

Sl. No.	Nature of disclosure	Particulars
1.	Quarterly	Company to disclose to the Reserve Bank stating the details of the of change in directors in a statement, certified by the statutory auditor and a certificate from the Managing Director that fit and proper criteria has been followed in selection is followed, within 15 days from the end of the quarter
2.	Annual	Company to obtain a simple declaration stating the details provided by the directors to the company has not undergone change and where there is a change, requisite details have been furnished to the company, from the directors
3.	Event Based	At the time of appointment, the company has to obtain requisite details from the directors in the form and manner prescribed in Annex 2 of the Revised Regulatory Framework issued by the RBI on 10th November, 2014
4.	Event Based	The company to obtain requisite details from the directors in the form and manner prescribed in **Annex 2** of the Revised Regulatory Framework issued by the RBI on 10th November, 2014, from the existing directors as before 31st March, 2015 [In this case disclosure stated under Sl. No. 2 above, need not be taken from the director]
5.	Event Based	The company should get a **deed of covenant** signed by the directors of the company, the format of which has been stated in **Annex 3** of the Revised Regulatory Framework issued by the RBI on 10th November, 2014 and the following disclosures are to be obtained from the directors – •Nature of concern and interest in different entities •General notice on directorship/ membership of companies/ bodies corporates •List of relative and to the extent possible, their shareholding

When Applicable? - A Consolidated table

Sl. No	Provision	Time Lime
1.	Requirement of minimum NOF of Rs. 200 lakhs	To be attained by end of March 2017, as per the milestones given below: • Rs. 100 lakh by March 2016 • Rs. 200 lakh by March 2017
2.	Rating by AFCs	The unrated existing AFCs-D are required to get themselves rated by 31st March, 2016
3.	Reducing the limit for acceptance of deposits by AFCs	W.e.f. the date of the circular i.e. 10th November, 2014
4.	Tier I Capital to a minimum of 10%	• 8.5% by end of March 2016. • 10% by end of March 2017.

When Applicable?

Sl. No	Provision	Time Lime
5.	Asset Classification	**For determination of NPAs**: a) Lease Rental and Hire-Purchase Assets: 1. if overdue for 9 months for FY ending March 31, 2016; 2. if overdue for 6 months for FY ending March 31, 2017; and 3. if overdue for 3 months for FY ending March 31, 2018 and thereafter. b) Assets other than Lease Rental and Hire-Purchase Assets 1. if overdue for 5 months for FY ending March 31, 2016; 2. if overdue for 4 months for the FY ending March 31, 2017; and 3. if overdue for 3 months for the FY ending March 31, 2018 and thereafter

When Applicable?

Sl. No	Provision	Time Lime
5.	Asset Classification *(contd.)*	**For determination of sub-standard asset:** For all loan and hire-purchase and lease assets: 1. an asset that has been classified as NPA for a period not exceeding 16 months (currently 18 months) for the FY ending March 31, 2016; 2. an asset that has been classified as NPA for a period not exceeding 14 months for the FY ending March 31, 2017; and 3. an asset that has been classified as NPA for a period not exceeding 12 months for the FY ending March 31, 2018 and thereafter.

When Applicable?

Sl. No	Provision	Time Lime
5.	Asset Classification *(contd.)*	**For determination of doubtful asset:** For all loan and hire-purchase and lease assets: 1. an asset that has remained sub-standard for a period exceeding 16 months (currently 18 months) for the financial year ending March 31, 2016; 2. an asset that has remained sub-standard for a period exceeding 14 months for the financial year ending March 31, 2017; and 3. an asset that has remained sub-standard for a period exceeding 12 months for the financial year ending March 31, 2018 and thereafter
6.	Provisioning for Standard Assets to 0.40%	1. 0.30% by the end of March 2016 2. 0.35% by the end of March 2017 3. 0.40% by the end of March 2018

When Applicable?

Sl. No	Provision	Time Lime
7.	Credit / Investment concentration norms for AFCs	For all new loans excluding those already sanctioned - Applicable with immediate effect. All existing excess exposures would be allowed to run off till maturity.
8.	Formation of Board Committees	No timeline specified. To be formed as soon as preferable. The Act requires companies to form the AC and NRC by 31st March, 2015. The RMC, was to be formed by 1st October, 2014 (LA).
9.	Mandatory rotation of Audit Partner	No timeline specified. Preferable by 31st March, 2015.
10.	Policy on the 'fit and proper criteria'	W.e.f. March 31, 2015
11.	Additional disclosures in financial Statement	Required to be disclosed in the Annual Financial Statements with effect from 31st March, 2015

Exceptions

- The provisions of the Circular will also be applicable to NBFC-MFIs and CICs
- Tier I capital for NBFCs primarily engaged in lending against gold jewellery remains unchanged
- In the circular dated March 21, 2014 on Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy, 'Notified NBFCs' shall be defined as a) NBFCs with assets of Rs. 100 crore and above, b) NBFCs-D, and c) all NBFC-Factors.