

Non – Banking Finance Company (NBFC)

Introduction & Registration

WIRC of ICSI

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COVERAGE:-

- Evolution of NBFC
- Meaning & Type of NBFC
- Principal Business Criteria (PBC)
- Registration Process
- Change in Control / Management
- Compliances
- Leverage Ratio / Exposure Limits
- Proposed Revised Regulatory Framework

Evolution of NBFC:-

- Effective Financial intermediary. Earlier there were no entry norms and no requirement for compulsory registration.
- In 1964, RBI acquired regulatory and supervisory powers over NBFCs with the insertion of Chapter III-B in the Reserve Bank of India Act, 1934 ('RBI Act').
- In 1974, the RBI Act was amended to give the Reserve Bank more powers with respect to NBFCs, including the power to inspect NBFCs, enhanced penalties for contravention of RBI directions, obligations on statutory auditors, etc.
- In 1997, RBI Act, 1934 was further amended and regulation over NBFCs was made more comprehensive.
- Regulatory Framework -1998 - In January 1998, the Reserve Bank issued a new regulatory framework for NBFCs building upon its newly acquired powers under the RBI Act.

Regulatory Framework -1998 - In January 1998, the Reserve Bank issued a new regulatory framework for NBFCs building upon its newly acquired powers under the RBI Act. The salient features of this framework were:

- (i)** Categorisation of NBFCs into (i) public deposit accepting, (ii) non-public deposit accepting but engaged in loan, investment, hire-purchase and equipment leasing, and (iii) non-public deposit accepting core investment companies that acquire securities/ shares in their own group companies comprising not less than 90 per cent of their total assets but not trading in these securities/ shares;
- (ii)** Clarifying the scope of the term 'deposits';
- (iii)** Minimum credit rating and calibration of quantum of deposits linked to credit rating and net owned funds (NOF);
- (iv)** Prohibition from grant of loan by an NBFC against the security of its own shares;

- (v) Exemption to non-deposit taking NBFCs from application of prudential norms subject to Board resolution every year on non-acceptance of public deposits;
- (vi) Widening the scope of auditors' certificate by including reporting on various supervisory concerns.

Classification of Systemically Important NBFCs – Based on Asset size

In 2006, considering the increasing significance of the sector, the Reserve Bank introduced differential regulation and classified NBFCs with asset size of ₹ 100 crore and above as 'Systematically Important NBFC-ND (NBFC-ND-SI)'. Prudential regulations such as capital adequacy requirements and exposure norms were made applicable to them.

Meaning of NBFC:-

Sec. 45I(f) of RBI Act, 1934:-

“non-banking institution” means a company, corporation, [or co-operative society];

10[(f) “non-banking financial company” means—

(i) a financial institution which is a company;

(ii) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;

(iii) such other non-banking institution or class of such institutions, as the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

Types of NBFC:-

Based on ability to accept Deposit:-

- Deposit Taking NBFC (NBFC-D)
- Non Deposit Taking NBFC (NBFC-ND)
 - Type I:-

NBFC-ND not accepting public funds/ not intending to accept public funds in the future **and** not having customer interface/ not intending to have customer interface in the future.

○ Type II:-

NBFC-ND accepting public funds/ intending to accept public funds in the future **and/or** having customer interface/intending to have customer interface in the future. NBFC-MFI, NBFC-factor, NBFC-IDF etc are categorised as Type II.

Based on Size of Assets:-

- Upper Layer
- Middle Layer
- Base Layer

Principal Business Criteria:-

- A company's financial assets constitute more than 50 per cent of the total assets **AND** income from financial assets constitute more than 50 per cent of the gross income. A company which fulfils both these criteria will be registered as NBFC by RBI.
- To be maintained at all times.
- Cash balance and Fixed Deposits with Banks are not considered as Financial Assets.

Registration of NBFCs

In order to carry on the business of NBFC, a company has to register itself with the Reserve Bank of India under Section 45-IA of the Reserve Bank of India Act, 1934

- Conditions as per section 45-IA:
 - ✓ The applicant should be registered as a company under Companies Act,

- ✓ The minimum net-owned funds of the applicant should be Rs. 10.00 Cr (as per revised regulatory framework).
- Meaning of net owned funds
 - ✓ Aggregate of paid up equity capital and free reserves as reduced by accumulated balance of losses, deferred revenue expenditure and other intangible assets.

- ✓ Owned funds –exposure in group companies, to the extent it exceeds 10% of owned funds
- If any person carries on the business of NBFC without obtaining registration, the same will attract penal provisions of Sec. 58B of the RBI Act and shall be punishable with imprisonment which shall not be less than 1 year but may extend up to 5 years and with fine which shall not be less than Rs.1.00 lakh but may extend up to Rs.5.00 lakhs.

NBFCs which are not required to obtain registration with the RBI:

- Merchant Banking Companies,
- Stock Exchanges,
- Companies engaged in the business of stock-broking/sub-broking,
- Venture Capital Fund Companies,
- Nidhi Companies,
- Insurance companies,
- Chit Fund Companies
- Core Investment Companies having asset size of less than Rs.100 crores or not holding public funds

Registration Process:-

- composition of Board of Directors, requirements from the applicant company, its directors, shareholders and its group companies and related matters, so as **to satisfy “fit & proper”** criteria with RBI
 - ✓ Credit history of the proposed Directors be satisfactory.
 - ✓ source of funds (in case of each shareholders) be clearly identified and be owned funds.
 - ✓ at least one member of Board Member should have experience in Financial Service (credit or lending experience with banking or a non-banking institution). It's is important to submit with RBI the relevant educational and experience certificates. Kindly note one such experienced director should hold **executive position** in Board.

- ✓ Credit information with respective bankers is at least satisfactory.
- ✓ Prescribed details of companies in the group including LLPs, firms & proprietary concern and entities in which Directors / Shareholders having substantial interest is to be presented with application.
- ✓ “companies in the group” means an arrangement involving two or more entities related to each other through any of the following relationships: Subsidiary - parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.” For further details, kindly refer to relevant accounting standard (AS).

- ✓ **Business Plan** along with 5 years of financial projection. Details of target sector for lending, landscape of such business, details of competition / peers, how are we different from other and how are we going to be beneficial to such sector/segment/consumer/society and all other relevant additional details.
- ✓ To specify whether intended operations of the company envisage any mobile app/web or any other digital platform and in case the company plans to undertake its activities through branches only that may also be specified. It is also advised to submit a brief write-up on plan for geographical outreach and existing/proposed IT infrastructure (mentioning the Development Tools, Infrastructure Tools, Integrations, Hardware, etc.).
- ✓ For online registration, visit to RBI's XBRL website <https://xbml.rbi.org.in>

Documents required for registration as Type I - NBFC-ND

An indicative list of basic documents/information to be furnished along with the application form:

Sr. No.	<i>Requirements to be complied with and documents to be submitted to RBI by Companies for obtaining certificate and Registration from RBI as NBFC</i>
1	Certified copies of Certificate of Incorporation and Certificate of Commencement of Business in case of public limited companies.
2	Certified copies of extract of only the main object clause in the MOA relating to the financial business.
3	Board resolution stating that: a) the company is not carrying on any NBFC activity/stopped NBFC activity and will not carry on/commence the same before getting registration from RBI b) the UIBs in the group where the director holds substantial interest or

	<p>otherwise has not accepted any public deposit in the past /does not hold any public deposit as on the date and will not accept the same in future</p> <p>c) the company has formulated “Fair Practices Code” as per RBI Guidelines</p> <p>d)the company has not accepted public funds in the past/does not hold any public fund as on the date and will not accept the same in the future without the approval of Reserve Bank of India</p> <p>e)the company does not have any customer interface as on date and will not have any customer interface in the future without the approval of Reserve Bank of India</p>
4	Copy of Fixed Deposit receipt & bankers certificate of no lien indicating balances in support of NOF
5	For companies already in existence, the Audited balance sheet and Profit & Loss account along with directors & auditors report or for the entire period the company is in existence, or for last three years , whichever is less, should be submitted

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|---|---|
| 6 | <p>Banker's report in respect of applicant company, its group/subsidiary/associate/holding company/related parties, directors of the applicant company having substantial interest in other companies The Banker's report should be about the dealings of these entities with these bankers as a depositing entity or a borrowing entity.</p> <p>Note: Please provide bankers report from all the bankers of each of these entities and provide the report for all the entities. The details of deposits and loans balances as on the date of application and the conduct of the account should be specified.</p> |
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Documents required for registration as Type II - NBFC-ND (including new applications of NBFC-MFI, NBFC-Factor, NBFC-IDF)

An indicative list of basic documents/information to be furnished along with the application form:

Sr. No.	<i>Requirements to be complied with and documents to be submitted to RBI by Companies for obtaining certificate and Registration from RBI as NBFC</i>
1	Certified copies of Certificate of Incorporation and Certificate of Commencement of Business in case of public limited companies.
2	Certified copies of extract of only the main object clause in the MOA relating to the financial business.
3	Board resolution stating that: a) the company is not carrying on any NBFC activity/stopped NBFC activity and will not carry on/commence the same before getting registration from RBI

	<p>b)the company has not accepted any public deposit, in the past (specify period)/does not hold any public deposit as on the date and will not accept the same in future without the prior approval of Reserve Bank of India</p> <p>c) the UIBs in the group where the director holds substantial interest or otherwise has not accepted any public deposit in the past /does not hold any public deposit as on the date and will not accept the same in future</p> <p>d)the company has formulated “Fair Practices Code” as per RBI Guidelines</p>
4	Copy of Fixed Deposit receipt & bankers certificate of no lien indicating balances in support of NOF
5	For companies already in existence, the Audited balance sheet and Profit & Loss account along with directors & auditors report or for the entire period the company is in existence, or for last three years, whichever is less, should be submitted
6	Copy of the certificate of highest educational and professional qualification in

	respect of all the directors
7	Copy of experience certificate, if any, in the Financial Services Sector (including Banking Sector) in respect of all the directors
8	<p>Banker's report in respect of applicant company, its group/subsidiary/associate/holding company/related parties, directors of the applicant company having substantial interest in other companies The Banker's report should be about the dealings of these entities with these bankers as a depositing entity or a borrowing entity.</p> <p>Note: Please provide bankers report from all the bankers of each of these entities and provide the report for all the entities. The details of deposits and loans balances as on the date of application and the conduct of the account should be specified.</p>

In addition to the Documents required for registration as Type II - NBFC-ND, following list of documents / information to be submitted by the NBFC-MFI applicant:

- i) Board resolution stating that:
 - a) the company will be a member of all the Credit Information Companies and will be a member of at least one Self Regulatory Organisation
 - b) the company will adhere to the regulations regarding pricing of credit, Fair Practices in lending and non-coercive method of recovery as per RBI Guidelines
 - c) the company has fixed internal exposure limits to avoid any undesirable concentration in specific geographical locations
 - d) the company is not licensed under Section 25 of the Companies Act, 1956 / Section 8 of the Companies Act, 2013.
- ii) Roadmap for achieving 85% qualifying assets.

In addition to the Documents required for registration as Type II - NBFC-ND, following list of documents / information to be submitted by the NBFC-Factor applicant:

- i) Board Resolution enclosing roadmap that the company will have financial assets in the factoring business constituting at least 50% of its total assets and its income derived from factoring business will not less than 50% of its gross income (Specify the time frame)

In addition to the Documents required for registration as Type II - NBFC-ND, following list of documents / information to be submitted by the NBFC-IDF applicant:

i) No objection Certificate from RBI issued to NBFC-IFC for sponsoring the NBFC-IDF.

ii) Copy of Tripartite Agreement between the concessionaire, the Project Authority and NBFC-IDF.

iii) Details of change in the management of the sponsor company during last financial year till date, if any, and reasons thereof.

iv) Source of startup capital of the company with documentary evidence. NBFC-IDF would raise resources through issue of either Rupee or Dollar denominated Bonds of minimum 5-year maturity.

Change in Control / Management:-

- Prior approval from RBI:-
 - ✓ Takeover / acquisition / merger / amalgamation, before approaching the court.
 - ✓ Resulting in acquisition / transfer of shareholding of 26% or more.
 - ✓ Resulting in Change of Management of 30% or more.
 - ✓ Progressive change over time.
- Public Notice in prescribed manner to be issued.
- Intimation of all changes is to be communicated.

Compliances:-

RBI Compliance Due Dates

NBFC Asset Size – Below ₹100 Crores

S. No	New return name in the XBRL system	New Frequency	Timeline	Due Date
1	DNBS02 Important Financial Parameters	Annually	Within 60 days from the year end	By 30 - May
2	DNBS13 Overseas Investment Detail	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
3	Statutory Auditor Certificate/DNBS10	Annually	31st March	One month from the date of finalisation of Balance Sheet. Not later than 31st December

NBFC Asset Size – Between ₹100 – 500 Crores

S. No	New return name in the XBRL system	New Frequency	Timeline	Due Date
1	DNBS02 Important Financial Parameters	Annually	Within 60 days from the year end	By 30 - May
2	DNBS 04A Short Term Dynamic Liquidity (STD L)	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
3	DNBS 04B Structural Liquidity & Interest Rate Sensitivity	Monthly	Within 10 days from the quarter end	By 10th of next month
4	DNBS13 Overseas Investment Detail	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
5	Statutory Auditor Certificate/DNBS10	Annually	31st March	One month from the date of finalisation of Balance Sheet. Not later than 31st December

RBI Compliance Due Dates

NBFC Asset Size – More than ₹500 Crores

S. No	New return name in the XBRL system	New Frequency	Timeline	Due Date
1	DNBS01	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
2	DNBS03	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
3	DNBS04A	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
4	DNBS04B	Monthly	Within 20 days	By 20th of next month
5	DNBS13	Quarterly	Within 15 days from the quarter end	By 15 - July, 15 - October, 15 - January, 15 - April
6	Statutory Auditor Certificate/DNBS10	Annually	31st March	One month from the date of finalisation of Balance Sheet. Not later than 31st December
7	DNBS08 (Reporting to Central Repository of Information on Large Credits (CRILC))	Quarterly	Within 21 days	By 21 - July, 21 - October, 21 - January, 21- April

8	DNBS09 (Reporting of Special Mention Account status (SMA-2 return))	Weekly	On Every Friday	
9	FDI Certificate	Half Yearly	Within 15 days from the half year end	15th Oct, and 15th April
10	FMR-1	Where the Amount involved above Rs. 1 lakh and below Rs. 1 Crore (Event Based)	Within three weeks from the date of detection	Within 21 days
11	FRM-2	Quarterly	Within 15 days	By 15 - July, 15 - October, 15 - January, 15 - April
12	FMR-3	Quarterly	Within 15 days	By 15 - July, 15 - October, 15 - January, 15 - April
13	A quarterly statement on change of directors	Quarterly	Within 15 days	
14	Information about downgrading / upgrading of rating assigned of any financial product issued by them.	Within 15 days	Within 15 days	
15	Submission of declaration - non-acceptance of deposit	Annually	Before 30th April	

- **Filing of Statutory Auditor Certificate (SAC) pertaining to Non Acceptance of Deposit, compliance of Prudential Norms, compliance of FDI Norms, NoF statement etc.**
- **Membership of all 4 Credit Information Companies (CICs).**
- **PMLA Compliances / FIU-IND Registration and Reporting (Online).**
- **CERSAI Registration / Reporting (Online).**
- **Corporate Governance / Disclosure.**
- **Adoption of Various Mandatory Policies based on whether NBFC is SI / Non-SI.**
 - Fair Practice Code, KYC Policy, Loan Policy, Customer Grievance Policy, Interest Rate Policy etc..

RBI's Prior Approval: -

- To approach the XBRL ORFS Section of Bank for issuance of login Id and Password for filing Online Returns.
- Acquisition / Transfer of Control of Applicable NBFCs
- Opening of Branch/Subsidiary/Joint Venture/ Representative Office or Undertaking Investment Abroad by NBFCs
- Expansion of activities of applicable NBFC through automatic route
- Issue of Credit Card- Applicable NBFCs registered with the Bank shall not undertake credit card business without prior approval.

- NOC for converting NBFC into LLPs
- NOC for the demerger of NBFC portfolio to Non-NBFC
- NOC for the change of name of NBFC.
- For conversion of classification of the NBFC.
- Cancellation of COR.
- For matters relating to corporate restructuring, merger, & amalgamation.

Leverage Ratio / Exposure Limits:-

Extant Regulatory Approach for NBFC-NDs¹- The regulatory approach in respect of NBFCs-ND with an asset size of less than Rs.500 crore (i.e. non-systemically important) is as under:

- Leverage ratio should not be more than 7

- Conduct of business regulations, such as, KYC and FPC are not applicable to those NBFCs with no customer interface (Type I NBFC).
- **Reserve Fund:** As per section 45-IC of RBI Act 1934, every NBFC shall create a reserve fund and transfer thereto a sum not less than 20 per cent of its net profit every year as disclosed in the profit and loss account before declaring any dividend.

Credit Concentration: (as a Percentage of Owned Funds)	Single	Group
Type of exposure		
Credit	15%	15%
Investment	25%	25%
Composite (Credit + Investment)	25%	40%
Infrastructure related activities (Credit + Investment)	Additional 5%	Additional 10%

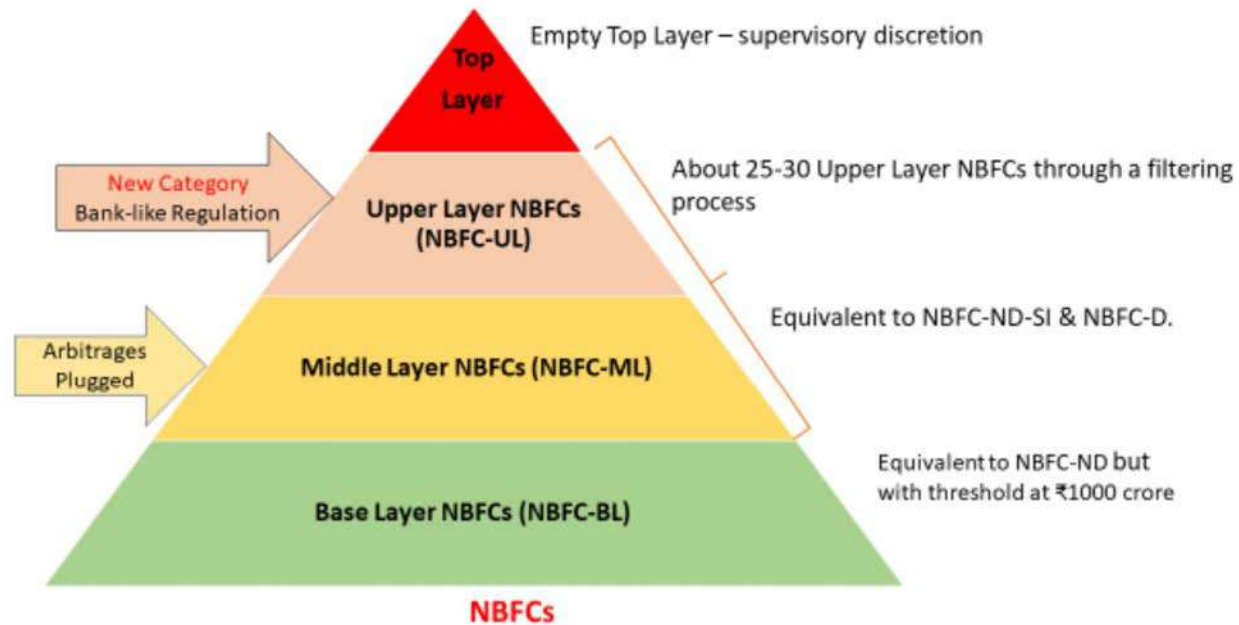
REVISED REGULATORY FRAMEWORK FOR NBFCs- A SCALE-BASED APPROACH:-

Introducing Scale-based Framework – Based on the discussion above, a regulatory framework anchored on proportionality can be introduced. If the framework is visualised as a pyramid, the bottom of the pyramid, where least regulatory intervention is warranted, can consist of NBFCs, currently classified as non-systemically important NBFCs (NBFC-ND), NBFC-P2P lending platforms, NBFC-AA, NOFHC and Type I NBFCs.

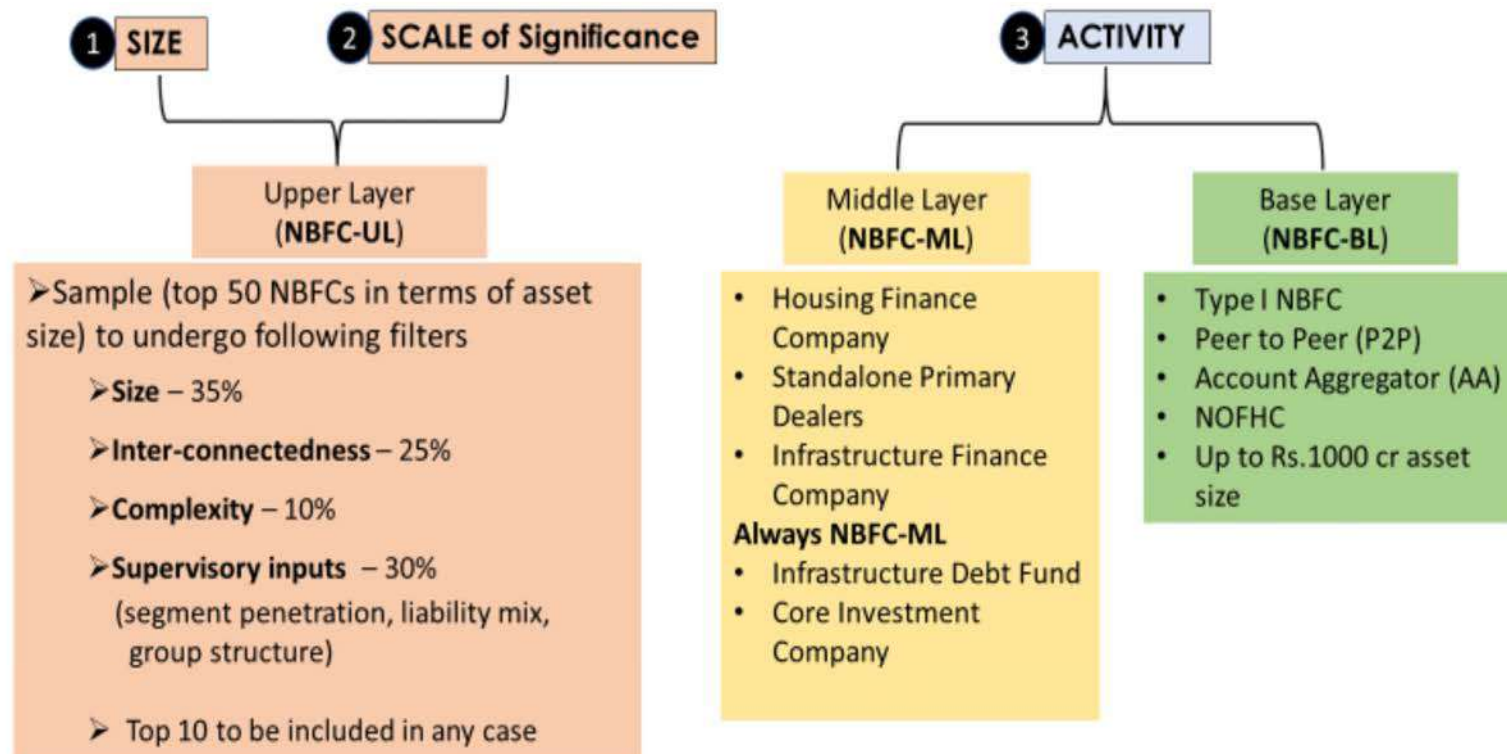
As one moves up, the next layer can consist of NBFCs currently classified as systemically important NBFCs (NBFC-ND-SI), deposit taking NBFCs (NBFC-D), HFCs, IFCs, IDFs, SPDs and CICs. The regulatory regime for this layer shall be stricter compared to the base layer. Adverse

regulatory arbitrage vis-à-vis banks can be addressed for NBFCs falling in this layer in order to reduce systemic risk spill-overs, where required.

Scale Based Approach – Introducing Scale Based Framework



Scale Based Approach – The Filtering Process



Master Directions (Prudential Norms):-

- Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank)

RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17
September 01, 2016 (Updated as on June 20, 2023*)

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

RBI/DNBR/2016-17/44 Master Direction DNBR.PD.007/03.10.119/2016-17
September 01, 2016 (Updated as on June 20, 2023*)

*Source: www.rbi.org.in

Q & A

THANK YOU

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