भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI /2014-15/54
DNBS (PD) CC No. 380/03.02.001/ 2014-15 **July 1, 2014**

To

All Deposit Taking NBFCs and Residuary Non-Banking Companies

Dear Sirs,

Master Circular – "Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007"

As you are aware, in order to have all current instructions on the subject at one place, the Reserve Bank of India issues updated circulars / notifications. The instructions contained in the Notification No. DNBS. 192 / DG (VL)-2007 dated February 22, 2007 updated as on June 30, 2014 are reproduced below. The updated notification has also been placed on the RBI web-site (http://www.rbi.org.in).

Yours faithfully,

(K. K. Vohra)
Principal Chief General Manager

Table of Contents

Para No	Particulars
1	Short title, commencement and applicability of the Directions
2	Definitions
3	Income recognition
4	Income from investments
5	Accounting standards
6	Accounting of investments
7	Need for Policy on Demand/Call Loans
8	Asset Classification
9	Provisioning requirements
10	Disclosure in the balance sheet
11	Constitution of Audit Committee by non-banking financial companies
12	Accounting year
13	Schedule to the balance sheet
14	Transactions in Government securities
15	Submission of a certificate from Statutory Auditor to the Bank
16	Requirement as to capital adequacy
17	Loans against non-banking financial company's own shares prohibited
18	Non-banking financial company failing to repay public deposit prohibited from making loans and investments
19	Restrictions on investments in land and building and Unquoted shares
20	Concentration of credit/investment
21	Submission of half yearly return
22	Exposure to Capital Market
23	Norms relating to Infrastructure loan
24	Exemptions
25	Interpretations
26	Repeal and Saving
	Appendix

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

NOTIFICATION No. DNBS. 192/ DG (VL)-2007 dated February 22, 2007

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to issue the Directions relating to the prudential norms as set out below, in exercise of the powers conferred by Section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, and in supersession of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 contained in Notification No. DFC. 119/DG(SPT)/98 dated January 31, 1998, gives to every non-banking financial company (other than Residuary Non-Banking Company) accepting/holding public deposits and to every Residuary Non-Banking Company the Directions hereinafter specified.

<u>Short title, commencement and applicability of the Directions:</u>

1. (1) These Directions shall be known as the "Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007".

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

(3) (i) The provisions of these Directions, shall apply to:

(a) a non-banking financial company, except a mutual benefit financial company [and a mutual benefit company] as defined in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and accepting/holding public deposit;

(b) a residuary non-banking company as defined in the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987.

(ii) These Directions shall not apply to a non-banking financial company being a Government company as defined under Section 617 of the Companies Act, 1956 (1 of 1956) and accepting / holding public deposit.

<u>Definitions</u>

2. (1) For the purpose of these Directions, unless the context otherwise requires:

(i) “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;

(ii) “carrying cost” means book value of the assets and interest accrued thereon but not received;

(iii) “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;

(iv) “doubtful asset” means:
  (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;

(v) “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;

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

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

[1][(viii) A credit facility extended by lenders (i.e. NBFCs) to a borrower for exposure in the following infrastructure sub-sectors will qualify as "Infrastructure lending":

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[1] Inserted vide Notification No Notification No.DNBS.265/PCGM(NSV)-2013 dated November 29, 2013

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 Rs.200 crores each in any place in India and of any star rating.
		xi.	Convention Centres with project cost[8] of more than Rs.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 the date of this circular 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.		

(ix) “loss asset” means:

(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 Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; 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;

(x) “long term investment” means an investment other than a current investment;

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

(xii) “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 9(2)(i) 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.

[2][(xiia) 'Non-Banking Financial Company - Factor' means a non-banking financial company as defined in clause (*f*) of section 45-I of the RBI Act, 1934 having financial assets in the factoring business at least to the extent of 75 per cent of its total assets and its income derived from factoring business is not less than 75 per cent of its gross income and has been granted a certificate of registration under sub-section (*1*) of section 3 of the Factoring Regulation Act, 2011.]

(xiii) 'non-performing asset' (referred to in these Directions as "NPA") means:

(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:

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[2] Inserted vide Notification No. DNBS. 250 / CGM(US)-2012 dated September 14, 2012

Provided that in the case of lease and hire purchase transactions, a non-banking financial company may classify each such account on the basis of its record of recovery;

(xiv) "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;

(xv) "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;

(xvi) "sub-standard asset" means:

(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 23 of these Directions;

(xvii) "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 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	100per cent
(b) More than one year but upto two years	80per cent
(c) More than two years but upto three years	60per cent
(d) More than three years but upto four years	40per cent
(e) More than four years but upto five years	20per cent

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

capital;

(xviii) "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;

(xix) "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;

(xx) "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 per cent;

[3][(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 per cent of risk weighted assets;]

(d) hybrid debt capital instruments; and

(e) subordinated debt

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

(2) Other words or expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 (2 of 1934) or the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 or the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987 shall have the same meaning as assigned to them under that Act or those Directions. Any other words or expressions not defined in that Act or those Directions, shall have the same meaning assigned to them in the Companies Act, 1956 (1 of 1956).

Income recognition

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

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

[3]Inserted vide Notification No. DNBS.222/ CGM(US)-2011 dated January 17, 2011

(3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised, shall be reversed.

(4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

Explanation.- For the purpose of this paragraph, `net lease rentals' mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV of the Companies Act, 1956 (1 of 1956).

Income from investments

4. (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 may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the non-banking financial company's right to receive payment is established.

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

Accounting standards

5. 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.

Accounting of investments

6. (1) (a) The Board of Directors of every non-banking financial company shall frame investment policy for the company and implement the same;

(b) 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;

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

(d) (i) There shall be no inter-class transfer on ad-hoc basis;

(ii) The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;

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

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

(v) The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.

(2) 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.

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 break up value, whichever is lower. However, non-banking financial companies may substitute fair value for the break up 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.

Need for Policy on Demand/Call Loans

7. (1) The Board of Directors of every non-banking financial company 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.

Asset Classification

8. (1) Every non-banking financial company 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.

Provisioning requirements

9. Every non-banking financial company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

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

(i) Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100per cent of the outstanding should be provided for;
(ii) Doubtful Assets	(a) 100 per cent provision to the extent to which the advance is not covered by the realisable value of the security to which the non-banking financial company has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis; (b) In addition to item (a) above, depending upon the period for which the asset as remained doubtful, provision to the extent of 20per cent to 50per cent of the secured portion (i.e. estimated

realisable value of the outstanding) shall be made on the following basis : -

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

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

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

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

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

(b) the depreciated value of the underlying asset,

shall be provided for.

Explanation :
For the purpose of this paragraph,

(1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and

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

(ii) Additional provision for hire purchase and leased assets - 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 but upto 24 months	10 per cent of the net book value

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

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

Notes:

(1) The amount of caution money/margin money or security deposits kept by the borrower with the non-banking financial company 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 may be deducted only against the provisions stipulated under clause (ii) above.

(2) The amount of security deposits kept by the borrower with the non-banking financial company in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may 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 cannot be taken as reason for not making provision.

(4) An asset which has been renegotiated or rescheduled as referred to in paragraph (2) (1) (xvi) (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 reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

(5) The balance sheet to be prepared by the non-banking financial company may be in accordance with the provisions contained in sub-paragraph (2) of paragraph 10.

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

[[4]](7) In case of NBFC-MFIs, 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 should be provided for as per the extant guidelines on provisioning for non-performing advances.

[5][**9A**. Every Non Banking Financial Company shall make provision for standard assets at 0.25 per cent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.]

Disclosure in the balance sheet

10. (1) Every non-banking financial company shall separately disclose in its balance sheet the provisions made as per paragraph 9 above 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 non-banking financial company.
(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.

4 Inserted vide Notification No.DNBS.268/PCGM(NSV)-2014 dated January 1, 2014
5 Inserted vide Notification No. DNBS.222/ CGM(US)-2011 dated January 17, 2011

Constitution of Audit Committee by non-banking financial companies

11. A non-banking financial company having assets of Rs. 50 crore and above as per its last audited balance sheet shall constitute an Audit Committee, consisting of not less than three members of its Board of Directors.

Explanation I: The Audit Committee constituted by a non-banking financial company as required under Section 292A of the Companies Act, 1956 (1 of 1956) shall be the Audit Committee for the purposes of this paragraph.

Explanation II: The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 292A of the Companies Act, 1956 (1 of 1956).

Accounting year

12. Every non-banking financial company shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever a non-banking financial company intends to extend the date of its balance sheet as per provisions of the Companies Act, it should take prior approval of the Reserve Bank of India before approaching the Registrar of Companies for this purpose.

Further, even in cases where the Bank and the Registrar of Companies grant extension of time, the non-banking financial company 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. [6][Every non-banking financial company shall finalise its balance sheet within a period of 3 months from the date to which it pertains.]

Schedule to the balance sheet

13. Every non-banking financial company shall append to its balance sheet prescribed under the Companies Act, 1956, the particulars in the schedule as set out in Annex I.

Transactions in Government securities

14. Every non-banking financial company may undertake transactions in Government securities through its CSGL account or its demat account:

Provided that no non-banking financial company shall undertake any transaction in government security in physical form through any broker.

Submission of a certificate from Statutory Auditor to the Bank

15. Every non-banking financial company shall submit a Certificate from its

[6] Inserted vide Notification No. DNBS. 217 / CGM(US)-2010 dated December 01, 2010

Statutory Auditor that it is engaged in the [7]business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act. A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered,["within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year".][8] Such certificate shall also indicate the asset / income pattern of the non-banking financial company for making it eligible for classification as Asset Finance Company, Investment Company or Loan Company. [9][For an NBFC-Factor, such certificate will indicate the requirement of holding the certificate of registration under section 3 of the Factoring Regulation Act. The certificate will also indicate the percentage of factoring assets and income, and that the company fulfils all conditions stipulated under the Factoring Regulation Act to be classified as an NBFC-Factor.]

Requirement as to capital adequacy

16. (1) Every non-banking financial company shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than twelve per cent of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items.

[10][Such ratio shall not be less than fifteen per cent by March 31, 2012.]

(2) The total of Tier II capital, at any point of time, shall not exceed one hundred per cent of Tier I capital.

Explanations:

(1) On balance sheet assets - 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:

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[7] It was clarified in DNBS (PD) C.C. No. 81/03.05.002/2006-07 dated October 19, 2006, that the business of non-banking financial institution (NBFI) means a company engaged in the business of financial institution as contained in Section 45I(a) of the RBI Act, 1934. For this purpose, the definition of 'Principal Business' given, vide Press Release 1998-99/1269 dated April 8, 1999 may be followed.

[8]Substituted vide Notification No. DNBS. (PD) 209 / CGM(ANR)-2009 dated October 22, 2009

[9] Inserted vide NotificationNo. DNBS. 250 / CGM(US)-2012 dated September 14, 2012

[10] Inserted vide Notification No. DNBS.224 / CGM(US)-2011 dated February 17, 2011

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
(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 by the company itself	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good	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

Notes:
(1) Netting may 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, non-banking financial companies may 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.

[11] [(4) The counterparty credit risk, arising out of exposure of NBFCs to CCIL on account of securities financing transactions (CBLOs) will carry a risk weight of zero, as it is presumed that the CCP's exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures. The deposits / collaterals kept by NBFCs with CCIL will attract a risk weight of 20per cent.]

[12](5)For loans guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) NBFC-MFIs may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as per extant guidelines.

[13][Off-balance sheet items

(2) [14]Deleted

[11]Inserted vide Notification No. DNBS. 211 / CGM (ANR)-2009 dated December 1, 2009
[12]Inserted vide Notification No DNBS.268 dated January 1, 2014
[13]Inserted vide Notification DNBS. PD.No.238 / CGM(US)-2011 dated December 26, 2011
[14]Deleted vide Notification DNBS. PD.No.238 / CGM(US)-2011 dated December 26, 2011

A. General

NBFCs will 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 will be calculated by means of a two-step process:

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

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

B. Non-market-related off- balance sheet items

(i) The credit equivalent amount in relation to a non-market related off-balance sheet item will 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 saleswith recourse, where the credit risk remains with the NBFC.	100
vii.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.	100
viii.	Lending of NBFC securities or posting of securities as collateral by NBFC, including instances where these arise out of repo style transactions	100

ix.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of up to one year over one year		20 50
x.	[15]Deleted [16]'Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's 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 per cent in respect of all borrowers or zero per cent 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:

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

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

[15] Deleted vide Notification No.DNBS(PD). 249 /CGM(US)-2012 dated August 1 , 2012
[16] Inserted vide Notification No.DNBS(PD). 249 /CGM(US)-2012 dated August 1 , 2012

[17]*'**For example:***

A term loan of Rs. 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 – Rs. 150 cr in Stage I, Rs. 200 cr in Stage II and Rs. 350 cr in Stage III, where the borrower needs the NBFC's explicit approval for draw downunder Stages II and III after completion of certain formalities. If the borrower has drawn already Rs. 50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be Rs.100 cr. If Stage I is scheduled to be completed within one year, the CCF will be 20 per cent and if it is more than one year then the applicable CCF will be 50 per cent'.

C. Market Related Off-Balance Sheet Items

(i) NBFCs should 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 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 would 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. Collateralised Borrowing and Lending Obligations - CBLOs, Repos) outstanding against them will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs'

[17] Inserted vide Notification No.DNBS(PD).248 / CGM(US)-2012 dated August 1, 2012

exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures.

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

vii. The total credit exposure to a counterparty in respect of derivative transactions should be calculated according to the current exposure method as explained below:

D. 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 current credit exposure and potential future credit exposure of the contract.

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

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

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

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

(ii) 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 would 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.

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

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

[18][E. Credit conversion factors for Credit Default Swaps (CDS):

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may 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 will be permitted to be recognised to a maximum of 80per cent of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20per cent of the applicable capital charge. This can be achieved by taking the exposure value at 20per cent of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 per cent 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, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will 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.]

Loans against non-banking financial company's own shares prohibited

17. (1) No non-banking financial company shall lend against its own shares.

(2) Any outstanding loan granted by a non-banking financial company against its

[18]Inserted vide Notification DNBS. PD.No.240 / CGM(US)-2011 dated December 30, 2011

own shares on the date of commencement of these Directions shall be recovered by the non-banking financial company as per the repayment schedule.

[19][17A. Loans against security of single product - gold jewellery

(a) All NBFCs shall

[20][(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 17C(1) of the Directions.]

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

(b) NBFCs should not grant any advance against bullion / primary gold and gold coins. NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 per cent or more of their financial assets) shall maintain a minimum Tier I capital of 12 per cent by April 1, 2014.) [21]NBFCs should 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.

[22][Verification of the Ownership of Gold

17B. It was stipulated *inter alia* that NBFCs should have Board approved policies in place to confirm and satisfy ownership of the gold jewellery and that adequate steps be taken to ensure that the KYC guidelines stipulated by the Reserve Bank are followed to verify adequate due diligence of the customer. In this regard, it has been decided that where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, NBFCs must keep record of the verification of the ownership of the jewellery. [23]The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document may be prepared to explain how the ownership was 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. NBFCs shall have an explicit policy in this regard as approved by the Board in their overall loan policy.

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[19]Inserted videNotificationNo. DNBS(PD).242/ CGM(US)-2012 dated March 21, 2012
[20]Substituted vide Notification No DNBS(PD).269 /PCGM (NSV) -2014 dated January 08, 2014
[21]Inserted videDNBS.CC.PD.No.326/03.10.01/2012-13 May 27, 2013
[22]Inserted vide Notification No DNBS.PD.263 dated September 16, 2013
[23]Deleted and substituted vide Notification No DNBS(PD).269/PCGM (NSV)-2014dated January 08, 2014

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

17C. (1) The gold jewellery accepted as collateral by the Non-Banking Financial Company shall be valued by 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).

(ii) If the gold is of purity less than 22 carats, the NBFC should 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 the gold as collateral should give a certificate to the borrower on their letterhead, of having assayed the gold and stating the purity (in terms of carats) and the weight. [24]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.

(2) Auction

(a) The auction should 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 should declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments should not be less than 85per cent of the previous 30 day average closing price of 22 carat gold as declared by The Bombay Bullion Association Ltd. (BBA) and value of the jewellery of lower purity in terms of carats should be proportionately reduced.

(c) It will 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 should be payable to the borrower.

(d) NBFCs must 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.

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

17D. (1) 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 to safeguard the gold jewellery accepted as collateral and to ensure convenience of borrowers.

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[24]Inserted vide Notification No.DNBS.(PD).269/ PCGM (NSV) -2014dated January 08, 2014

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

Opening Branches exceeding one thousand in number

17E. It is henceforth mandatory for a Non-Banking Financial Company to obtain prior approval of the Reserve Bank to open branches exceeding 1000. However NBFCs which already have more than 1000 branches may approach the Bank for prior approval for any further branch expansion. Besides, no new branches will be allowed to be opened without the facilities for storage of gold jewellery and minimum security facilities for the pledged gold jewellery.]

Non-banking financial company failing to repay public deposit prohibited from making loans and investments

18. A non-banking financial company which has failed to repay any public deposit or part thereof in accordance with the terms and conditions of such deposit, as provided in Section 45QA(1) of the Reserve Bank of India Act, 1934 (2 of 1934) shall not grant any loan or other credit facility by whatever name called or make any investment or create any other asset as long as the default exists.

Restrictions on investments in land and building and Unquoted shares

19. (i) No Asset Finance Company, which is accepting public deposit, shall, invest in-

(a) land or building, except for its own use, an amount exceeding ten per cent of its owned fund;
(b) unquoted shares of another company, which is not a subsidiary company or a company in the same group of the non-banking financial company, an amount exceeding ten per cent of its owned fund.

(ii) No loan company or investment company, which is accepting public deposit, shall, invest in -

(a) land or building, except for its own use, an amount exceeding ten per cent of its owned fund ;
(b) unquoted shares of another company, which is not a subsidiary company or a company in the same group of the non-banking financial company, an amount exceeding twenty per cent of its owned fund:

Provided that the land or building or unquoted shares acquired in satisfaction of its debts shall be disposed off by the non-banking financial company within a period of three years or within such period as extended by the Bank, from the date of such acquisition if the investment in these assets together with such assets already held by the non-banking financial company exceeds the above ceiling;

Explanation.- While calculating the ceiling on investment in unquoted shares, investments in such shares of all companies shall be aggregated.

Provided further that the ceiling on the investment in unquoted shares shall not be applicable to an Asset Finance Company or a loan company or an investment company in respect of investment in the equity capital of an insurance company upto the extent specifically permitted, in writing, by the Reserve Bank of India.

[25]**[19A. NBFCs not to be partners in partnership firms**

(1) No non-banking financial company, which is accepting public deposit shall contribute to the capital of a partnership firm or become a partner of such firm.

(2) A non-banking financial company, which is accepting public deposit and which had already contributed to the capital of a partnership firm or was a partner of a partnership shall seek early retirement from the partnership firm.]

[26] [(3) In this connection it is further clarified that;

(a) Partnership firms mentioned above will also include Limited Liability Partnerships (LLPs).

(b) Further, the aforesaid prohibition will also be applicable with respect to Association of persons; these being similar in nature to partnership firms.

NBFCs which had already contributed to the capital of a LLP / Association of persons or was a partner of a LLP / Association of persons are advised to seek early retirement from the LLP / Association of persons.]

Concentration of credit/investment

20. (1) No non-banking financial company shall,

(i) lend to

(a) any single borrower exceeding fifteen per cent of its owned fund; and

(b) any single group of borrowers exceeding twenty five per cent of its owned fund;

(ii) invest in

(a) the shares of another company exceeding fifteen per cent of its owned fund; and

(b) the shares of a single group of companies exceeding twenty five per cent of its owned fund;

[25] Inserted vide Notification no. DNBS.227 / CGM(US)-2011 dated March 30, 2011

[26] Inserted vide Notification No.DNBS(PD).255/CGM(CRS)2013 dated June 11, 2013

(iii) lend and invest (loans/investments taken together) exceeding
 (a) twenty five per cent of its owned fund to a single party; and
 (b) forty per cent of its owned fund to a single group of parties.

Provided that the ceiling on credit/investment concentration shall not be applicable to a residuary non-banking company in respect of investments in approved securities, bonds, debentures and other securities issued by a Government company or a public financial institution or a scheduled commercial bank under the provisions of paragraphs 6(1)(a) and 6(1)(b) of the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987.

Provided further that the ceiling on the investment in shares of another company shall not be applicable to a non-banking financial company in respect of investment in the equity capital of an insurance company up to the extent specifically permitted, in writing, by the Reserve Bank of India.

Provided further that any non-banking financial company, classified as Asset Finance Company by the Reserve Bank of India, may in exceptional circumstances, exceed the above ceilings on credit/investment concentration to a single party or a single group of parties by 5 per cent of its owned fund, with the approval of its Board.

Notes:

(1) For determining the limits, off-balance sheet exposures shall be converted into credit risk by applying the conversion factors as explained in paragraph 16.
(2) The investments in debentures for the purposes specified in this paragraph shall be treated as credit and not investment.
(3) These ceilings shall be applicable to the credit/investment by such a non-banking financial company to companies/firms in its own group as well as to the borrowers/ investee company's group.

[27][**Submission of half yearly return**

21. With effect from June 30, 2011, all Non-banking financial companies, excluding residuary non-banking companies referred to in paragraphs 1(3)(i)(a) and (b), shall submit on line a quarterly return within fifteen days of the expiry of the relative quarter as on March 31, June 30, September 30 and December 31 every year, in the format available on https://cosmos.rbi.org.in.]

Exposure to Capital Market

22. Every non-banking financial company (including residuary non-banking company) with total assets of Rs. 100 crore and above according to the previous

[27]Deleted and Inserted vide Notification No. DNBS.231 / CGM(US)-2011 dated September 22, 2011

audited balance sheet, shall submit a monthly return within a period of 7 days of the expiry of the month to which it pertains in the format NBS 6 provided in Annex 3 to the Regional Office of the Department of Non-Banking Supervision of the Reserve Bank of India as indicated in the Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and Schedule B to the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987.

Norms relating to Infrastructure loan

23. [28]Deleted

(1) Increase in exposure limits for Infrastructure related loan and investment

The non-banking financial companies may exceed the concentration of credit/investment norms, as provided in paragraph 20 of these Directions, by 5 per cent for any single party and by 10 per cent for a single group of parties, if the additional exposure is on account of infrastructure loan and/ or investment.

(2) 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.

[28]Deleted vide Notification No DNBS(PD).No 271 dated January 23, 2014

[29][**23 A Norms for restructuring of advances**

Norms for restructuring of advances by NBFCs shall be on the lines of the norms specified by the Reserve Bank of India for banks as modified and set forth in Annex-A."

Exemptions

24. The Reserve Bank of India may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extension of time to comply with or exempt any non-banking financial company or class of non-banking financial companies, from all or any of the provisions of these Directions either generally or for any specified period, subject to such conditions as the Reserve Bank of India may impose.

Interpretations

25. For the purpose of giving effect to the provisions of these Directions, the Reserve Bank of India may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank of India shall be final and binding on all the parties concerned.

Repeal and saving

26. (1) The Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 shall stand repealed by these Directions.
(2) Notwithstanding such repeal, any circular, instruction, order issued under the Directions in sub–section (1) shall continue to apply to non-banking financial companies in the same manner as they applied to such companies before such repeal.

Sd/-
(V. Leeladhar)
Deputy Governor

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[29] Inserted vide Notification No.DNBS (PD) No 271 dated January 23, 2014
Foot Note: The Reference to Companies Act, 1956 in the Master Circular will be changed as and when change is effected in the original circular/notification

Annex I

Schedule to the
Balance Sheet of a non-banking financial company
(as required in terms of paragraph 13 of Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007)

(Rs. in lakhs)

	Particulars		
	Liabilities side :		
(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	Amount out-standing	Amount overdue
(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) 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)**	
	(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 paragraph 2(1)(xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

2. Provisioning norms shall be applicable as prescribed in the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

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 should be disclosed irrespective of whether they are classified as long term or current in (5) above.

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Annex – A

Norms on Restructuring of Advances by NBFCs

1. These prudential norms are applicable to all restructurings including those under CDR Mechanism. The institutional / organizational framework for CDR Mechanism and SME Debt Restructuring Mechanism will 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 should be clearly spelt out at the time of financial closure of the project and the same should be formally documented. These should also be documented in the appraisal note by the NBFC 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 would 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' would 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 will 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 will 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 can 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 would inter alia require that the application for restructuring should 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 would be:

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

(b) NBFCs should 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 per cent
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 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 per cent - 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 till the revised DCCO or 2 years from the date of restructuring, whichever is later.

(v) For the purpose of these Directions, mere extension of DCCO would 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 would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.25 per cent.

(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) need 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 will 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 will 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 would among others 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 would be:

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

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

<table>
<tr><th>Particulars</th><th colspan="3">Provisioning Requirement</th></tr>
<tr><td>If the revised DCCO is within one year from the original DCCO prescribed at the time of financial closure</td><td>*</td><td colspan="2">0.25 per cent</td></tr>
<tr><td rowspan="8">If the DCCO is extended beyond one year and upto two years from the original DCCO prescribed at the time of financial closure</td><td colspan="3">Project loans restructured with effect from January 24, 2014 :</td></tr>
<tr><td rowspan="6">*</td><td colspan="2">5.00 per cent - From the date of restructuring for 2 years</td></tr>
<tr><td colspan="2">Stock of Project loans classified as restructured as on January 23, 2014 :</td></tr>
<tr><td>-</td><td>2.75 per cent - with effect from March 31, 2014</td></tr>
<tr><td>-</td><td>3.50 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014- 15)</td></tr>
<tr><td>-</td><td>4.25 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015- 16)</td></tr>
<tr><td>-</td><td>5 per cent - with effect from March 31, 2017 (spread over the four quarters of 2016-17).</td></tr>
<tr><td>*</td><td colspan="2">The above provisions will be applicable from the date of restructuring for 2 years.</td></tr>
</table>

(iv) For the purpose of these guidelines, mere extension of DCCO would 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 would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.25 per cent.

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, would 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 25per cent or more of the original outlay.

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

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

(ii) Project Loans for Commercial Real Estate

For CRE projects mere extension of DCCO would 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 will 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 would 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 should satisfy themselves about the viability of the project and the restructuring plan.

3.6. **Income recognition**

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

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

Consequently, NBFCs which have wrongly recognised income in the past should 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 should 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, should 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 should also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognized as income, should be fully provided for.

(b) Conversion into equity, debentures or any other instrument : The amount outstanding converted into other instruments would 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 should be made for the amount of income so recognised to offset the effect of such income recognition. Such provision would 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 should 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 would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument should 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 would 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 are applicable to all advances including the borrowers, who are eligible for special regulatory treatment for asset classification as specified in para 7.

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 would continue to apply. The process of re- classification of an asset should 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 would 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 would 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 will 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 would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action. NBFCs should accelerate the recovery measures in respect of such accounts. The viability should 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 may 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 will be desirable that NBFCs adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability should 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 may 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 will 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 could 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' should be immediately reclassified as 'sub-standard assets' upon restructuring.

4.2.2 The non-performing assets, upon restructuring, would 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 should 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 would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

4.2.5 Any additional finance may 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 should 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 should 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 may 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' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

4.4 **Provisioning norms**

4.4.1 Provision on restructured advances

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

(ii) Restructured accounts classified as standard advances will 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 will 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 will 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 would 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 per cent - with effect from March 31, 2017 (spread over the four quarters of 2016-17

4.4.2 Provision for diminution in the fair value of restructured advances

(i) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the NBFC and will 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 should 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 should 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 will 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 will 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 would need to 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 should correctly capture the diminution in fair value of restructured accounts as it will 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 should 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 are also advised to 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 should 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 may 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 may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(v) If due to lack of expertise / appropriate infrastructure, an NBFC finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, NBFCs will have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five per cent 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 100per cent of the outstanding debt amount.

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

5.1 Asset classification norms

A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt / equity instruments so created will 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 would 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 may 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 may be recognised only on cash basis.

5.3 Valuation and provisioning norms

These instruments should be held under 'current investments' and valued as per usual valuation norms. Equity classified as standard asset should 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 should be valued at market value, if quoted, and in case where equity is not quoted, it should be valued at Re.1. Depreciation on these instruments should 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 will 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 would 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 may 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 should 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 will be recognised in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

6.3 Valuation and Provisioning norms

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

7. Special Regulatory Treatment for Asset Classification

7.1 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 4 above, will be available, in respect of restructuring of advances granted to infrastructure projects, non-infra projects and all advances restructured either under CDR mechanism / SME

Debt Restructuring Mechanism and debt restructured in a consortium / multiple lending arrangement (except the following categories of advances), subject to compliance with certain conditions as enumerated in para 7.2 below :

i. Consumer and personal advances;

ii. Advances classified as Capital market exposures;

iii. Advances classified as commercial real estate exposures

The asset classification of these three categories of accounts as well as that of other accounts which do not comply with the conditions enumerated in para 7.2, will be governed by the prudential norms in this regard described in para4 above.

7.2 **Elements of special regulatory framework**

The special regulatory treatment has the following two components :

(i) Incentive for quick implementation of the restructuring package.

(ii) Retention of the asset classification of the restructured account in the pre-restructuring asset classification category.

7.2.1 ***Incentive for quick implementation of the restructuring package***

As stated in para 4.1.2, during the pendency of the application for restructuring of the advance with the NBFC, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the NBFC as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the NBFC in non-CDR cases :

(i) Within 120 days from the date of approval under the CDR Mechanism.

(ii) Within 120 days from the date of receipt of application by the NBFC in cases other than those restructured under the CDR Mechanism.

7.2.2 ***Asset classification benefits***

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 4 :

(i) In modification to para 4.2.1, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(ii) In modification to para 4.2.2, during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

However, these benefits will be available subject to compliance with the following conditions :

(i) The dues to the NBFC are 'fully secured' as defined in Appendix - 2. The condition of being fully secured by tangible security will not be applicable to infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing NBFC(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

(ii) The unit becomes viable in 8 years, if it is engaged in infrastructure activities, and in 5 years in the case of other units.

(iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances.

(iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of NBFCs' sacrifice or 2 per cent of the restructured debt, whichever is higher. This stipulation is the minimum and NBFCs may decide on a higher sacrifice by promoters depending on the riskiness of the project and promoters' ability to bring in higher sacrifice amount. Further, such higher sacrifice may invariably be insisted upon in larger accounts, especially CDR accounts. The promoters' sacrifice should invariably be brought upfront while extending the restructuring benefits to the borrowers. The term 'NBFC's sacrifice' means the amount of "erosion in the fair value of the advance" or "total sacrifice", to be computed as per the methodology enumerated in para 4.4.2 (i) and (ii) above.

(v) Promoter's contribution need not necessarily be brought in cash and can be brought in the form of de-rating of equity, conversion of unsecured loan brought by the promoter into equity and interest free loans.

(vi) The restructuring under consideration is not a 'repeated restructuring' as defined in Appendix - 2.

7.2.3. In line with the recommendation of the Working Group (Chairman : Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks / financial institutions, the incentive for quick implementation of restructuring package and asset classification benefits (paragraph 7.2.1&7.2.2 above) available on restructuring on fulfilling the conditions will however be withdrawn for all restructurings effective from April 1, 2015 with the exception of provisions related to changes in DCCO in respect of infrastructure as well as non-infrastructure project loans (please see para 3). It implies that with effect from April 1, 2015, a standard account on restructuring (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also the non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per the extant asset classification norms with reference to the pre-restructuring repayment schedule.

8. Miscellaneous

8.1 The NBFCs should 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.

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

8.3 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 should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should 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 should be recovered.

8.4 As stipulating personal guarantee will ensure promoters' "skin in the game" or commitment to the restructuring package, promoters' personal guarantee should 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.

9. Disclosures

With effect from the financial year ending March 2014NBFCs should 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 would 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 should 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 abinitio or on upgradation from NPA category) revert to the normal level on account of satisfactory performance during the prescribed period, such advances should 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 should continue to be maintained by NBFCs as per the existing instructions.

10. The CDR Mechanism will also be available to the corporates engaged in nonindustrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, NBFCs are also encouraged to strengthen the coordination among themselves / creditors in the matter of

restructuring of consortium / multiple lending accounts, which are not covered under the CDR Mechanism.

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

Appendix -1

Broad Benchmarks for the Viability Parameters

i. Return on capital employed should be at least equivalent to 5 year Government security yield plus 2 per cent.

ii. The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.

iii. The benchmark gap between internal rate of return and cost of capital should be at least 1per cent.

iv. Operating and cash break even points should be worked out and they should be comparable with the industry norms.

v. Trends of the company based on historical data and future projections should be comparable with the industry. Thus behaviour of past and future EBIDTA should be studied and compared with industry average.

vi. Loan life ratio (LLR), as defined below should be 1.4, which would give a cushion of 40per cent to the amount of loan to be serviced.

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

Appendix-2

Key Concepts

(i) Advances

The term 'Advances' will 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 would 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 will 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 would normally involve modification of terms of the advances / securities, which would 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 will 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, would 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 might not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then third roll-over onwards the account would have to be treated as a restructured account. Besides, NBFCs should 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 RPCD circulars 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 should remain overdue for a period of more than the number of days after which it would be classified as NPA. In addition there should 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 should satisfy themselves about the revenue generation / repaying capacity of the borrower during the entire repayment period including the extended repayment period.

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

Appendix-3

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

A. Corporate Debt Restructuring (CDR) Mechanism

1.1 **Objective**

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will 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 will 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 Rs.10 crore or above.

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

2.2 The Forum will 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 Chairmen 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 will 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 would not be a member of the CDR Standing Forum and Core Group. Its role will 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 would 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 would 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 may 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 will 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 will 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 would 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 will facilitate the conduct of the Group's meetings, voting will 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 would 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 should 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 should be at a sufficiently senior level to ensure that concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring. There should 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 will 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 will 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 should decide upon the alternate institution / bank which would 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 would 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 may 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 should 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 will meet on two or three occasions in respect of each borrowal account. This will 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 would be put on the restructuring mode. If restructuring is not found viable, the creditors would 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 will be assisted by a CDR Cell in all their functions. The CDR Cell will 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 will 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 will 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 will 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 may 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 will 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 will be met from contribution of the financial institutions and banks in the Core Group at the rate of Rs.50 lakh each and contribution from other institutions and banks at the rate of Rs.5 lakh each.

5. Other features

5.1 Eligibility criteria

5.1.1 The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will 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 Rs.10 crore and above by banks and institutions.

5.1.2 The Category 1 CDR system will 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 90per cent of creditors (by value), the same would be treated as standard / substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10per cent of creditors. There would 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 would 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 will continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group may 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 may be admitted for restructuring with the approval of the Core Group only. The Core Group may ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

5.1.4 The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75per cent of the creditors (by value) and 60per cent of creditors (by number).

5.1.5 BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases may 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 should 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 20per cent share in either working capital or term finance, or (ii) by the concerned

corporate, if supported by a bank or financial institution having stake as in (i) above.

5.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks / FIs should review all eligible cases where the exposure of the financial system is more than Rs.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 will 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 would be a legally binding agreement amongst the creditors, with necessary enforcement and penal clauses, wherein the creditors would 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 would 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) would 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 may 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 may 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 would 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 would 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 will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that it will not approach any other authority for any relief and the directors of the borrowing company will 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 will 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 5.5.1 a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance will 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, will be payable along with the last instalment of the principal due to the creditor.

5.5.2 In addition, the exit option will also be available to all lenders within the minimum 75 per cent and 60 per cent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders may 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 would have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which would 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 may not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS may 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 75per cent of creditors (by value) and 60per cent creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions :

(i) It will 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 will depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing loans will only be restructured and it would 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., will continue to be applicable to this category also.

5.6.2 No individual case should be referred to RBI. CDR Core Group may 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 will 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 should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should 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 should 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 banks concerned. This mechanism will be applicable to all the borrowers which have funded and non-funded outstanding up to Rs.10 crore under multiple / consortium banking arrangement. Major elements of this arrangements are as under :

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

(ii) While framing the scheme, banks may ensure that the scheme is simple to comprehend and will, at the minimum, include parameters indicated in these guidelines.

(iii) The main plank of the scheme is that the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.

(iv) Banks should 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 will be available to all borrowers engaged in any type of activity.

(vi) Banks may review the progress in rehabilitation and restructuring of SMEs accounts on a quarterly basis and keep the Board informed.

Appendix 4

Disclosure of Restructured Accounts

Disclosure of Restructured Accounts

Sl. No.	Type of Restructuring		Under CDR Mechanism					Under SME Debt Restructuring Mechanism					Others					Total				
	Asset Classification		Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
	Details																					
1	Restructured Accounts as on April 1 of the FY (opening figures)*	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
2	Fresh restructuring during the year	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
3	Upgradations to restructured standard category during the FY	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
4	Restructured standard	No. of borrowers																				

	advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	Amount outstanding																				
		Provision thereon																				
5	Downgradations of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				
6	Write-offs of restructured accounts during the FY	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				

7	Restructured Accounts as on March 31 of the FY (closing figures*)	No. of borrowers																				
		Amount outstanding																				
		Provision thereon																				

* Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).

Appendix

List of Circulars/Notifications

Sr. No.	Circular/Notification	Date
1	Notification no. DNBS.253/CGM(CRS)-2012	28-Dec-12
2	Notification No. DNBS.250/CGM(US)-2012	14-Sep-12
3	Notification No. DNBS.222/CGM(US)-2011	17-Jan-11
4	Notification No. DNBS.217/CGM(US)-2010	1-Dec-10
5	Notification No. DNBS.(PD)209/CGM(ANR)-2009	22-Oct-09
6	Notification No. DNBS.224/CGM(US)-2011	17-Feb-11
7	Notification No. DNBS(PD).242/CGM(US)-2012	21-Mar-12
8	Notification No. DNBS.211/CGM (ANR)-2009	1-Dec-09
9	Notification DNBS.PD.No.238/CGM(US)-2011	26-Dec-11
10	Notification No. DNBS(PD).249/CGM(US)-2012	1-Aug-12
11	Notification No. DNBS(PD).248/CGM(US)-2012	1-Aug-12
12	Notification DNBS.PD.No.240/CGM(US)-2011	30-Dec-11
13	DNBS.CC.PD.No.326/03.10.01/2012-13	27-May-13
14	Notification no. DNBS.227/CGM(US)-2011	30-Mar-11
15	Notification No. DNBS(PD).255/CGM(CRS)2013	11-Jun-13
16	Notification No. DNBS.231/CGM(US)-2011	22-Sep-11
17	Notification No.DNBS.265/PCGM(NSV)-2013	29-Nov-13
18	Notification No.DNBS.268/PCGM(NSV)-2014	1-Jan-14
19	DNBS (PD) C.C. No. 81/03.05.002/2006-07	19-Oct-06
20	Press Release 1998-99/1269	8-Apr-99
21	Notification DNBS(PD).269 /PCGM(NSV)-2014	8-Jan-14
22	Notification No DNBS.PD.263	16-Sep-13
23	Notification No DNBS(PD).No 271	23-Jan-14