भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2021-22/139
DoS.CO.PPG.SEC.7/11.01.005/2021-22 December 14, 2021

All Deposit Taking NBFCs

[Excluding Government Companies]

All Non-Deposit Taking NBFCs in Middle, Upper and Top Layers[1]

[Excluding – (i) NBFCs not accepting/not intending to accept public funds[2]; (ii) Government Companies, (iii) Primary Dealers and (iv) Housing Finance Companies]

Dear Sir / Madam,

Prompt Corrective Action (PCA) Framework for Non-Banking Financial Companies (NBFCs)

Reserve Bank of India had introduced a Prompt Corrective Action Framework (PCA) for Scheduled Commercial Banks in 2002 and the same has been reviewed from time to time based on the experience gained and developments in the banking system. The objective of the PCA Framework is to enable Supervisory intervention at appropriate time and require the Supervised Entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health. The PCA Framework is also intended to act as a tool for effective market discipline. The PCA Framework does not preclude the Reserve Bank of India from taking any other action as it deems fit at any time in addition to the corrective actions prescribed in the Framework.

[1] Ref.: RBI circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021 on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

[2] "Public funds" shall include funds raised either directly or indirectly through public deposits, Commercial Papers, debentures, inter-corporate deposits and bank finance but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue.

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2. NBFCs have been growing in size and have substantial interconnectedness with other segments of the financial system. Accordingly, it has now been decided to put in place a PCA Framework for NBFCs to further strengthen the supervisory tools applicable to NBFCs. The PCA Framework for NBFCs, as contained in the enclosed Annex, comes into effect from October 1, 2022, based on the financial position of NBFCs on or after March 31, 2022.

3. In terms of extant regulations, Government NBFCs have been provided time upto March 31, 2022 to adhere to the capital adequacy norms provided for NBFCs (Ref. Annex I of Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016). Accordingly, a separate circular would be issued in due course with regard to applicability of PCA Framework to Government NBFCs.

4. The PCA Framework will be reviewed after three years of being in operation.

Yours faithfully,

(Ajay Kumar Choudhary)
Chief General Manager-in-Charge

Enclosure: PCA Framework for NBFCs

Annex

PCA Framework for NBFCs

A. The PCA Framework is applicable to the following category of NBFCs:

   a. All Deposit Taking NBFCs [Excluding Government Companies] (NBFCs-D)

   b. All Non-Deposit Taking NBFCs in Middle, Upper and Top Layers[3] (NBFCs-ND);

   [Including Investment and Credit Companies, Core Investment Companies (CICs), Infrastructure Debt Funds, Infrastructure Finance Companies, Micro Finance Institutions and Factors]; but

   [Excluding – (i) NBFCs not accepting/not intending to accept public funds[4]; (ii) Government Companies, (iii) Primary Dealers and (iv) Housing Finance Companies]

B. For NBFCs-D and NBFCs-ND, Capital and Asset Quality would be the key areas for monitoring in PCA Framework.

   For CICs, Capital, Leverage and Asset Quality would be the key areas for monitoring in PCA Framework.

C. For NBFCs-D and NBFCs-ND, indicators to be tracked would be Capital to Risk Weighted Assets Ratio (CRAR), Tier I Capital Ratio and Net NPA Ratio (NNPA). For CICs, indicators to be tracked would be Adjusted Net Worth/Aggregate Risk Weighted Assets, Leverage Ratio and NNPA.

D. A NBFC will generally be placed under PCA Framework based on the audited Annual Financial Results and/or the Supervisory Assessment made by the RBI. However, the RBI may impose PCA on any NBFC during the course of a year (including migration from one threshold to another) in case the circumstances so warrant.

E. The Reserve Bank may issue a press release when a NBFC is placed under PCA as well as when PCA is withdrawn vis-à-vis a NBFC.

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[3] Ref.: RBI circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021 on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

[4] "Public funds" shall include funds raised either directly or indirectly through public deposits, Commercial Papers, debentures, inter-corporate deposits and bank finance but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue.

F. Breach of any risk threshold (as detailed under) may result in invocation of PCA.

For NBFCs-D and NBFCs-ND (excluding CICs):

Indicator	**Risk Threshold-1**	**Risk Threshold-2**	**Risk Threshold-3**
CRAR	Upto 300 bps below the regulatory minimum CRAR [currently, CRAR <15% but ≥12%]	More than 300 bps but upto 600 bps below regulatory minimum CRAR [currently, CRAR <12% but ≥9%]	More than 600 bps below regulatory minimum CRAR [currently, CRAR <9%]
Tier I Capital Ratio	Upto 200 bps below the regulatory minimum Tier I Capital Ratio [currently, Tier I Capital Ratio <10% but ≥8%]	More than 200 bps but upto 400 bps below the regulatory minimum Tier I Capital Ratio [currently, Tier I Capital Ratio <8% but ≥6%]	More than 400 bps below the regulatory minimum Tier I Capital Ratio [currently, Tier I Capital Ratio <6%]
NNPA Ratio (including NPIs)	>6% but ≤ 9%	>9% but ≤12%	>12%

For CICs:

Indicator	**Risk Threshold-1**	**Risk Threshold-2**	**Risk Threshold-3**
Adjusted Net Worth / Aggregate Risk Weighted Assets	Upto 600 bps below the regulatory minimum ANW/RWA [currently, ANW/RWA <30% but ≥24%]	More than 600 bps but upto 1200bps below regulatory minimum ANW/RWA [currently, ANW/RWA <24% but ≥18%]	More than 1200 bps below regulatory minimum ANW/RWA [currently, ANW/RWA <18%]

Indicator	Risk Threshold-1	Risk Threshold-2	Risk Threshold-3
Leverage Ratio	≥2.5 times but <3 times	≥ 3 times but <3.5 times	≥3.5 times
NNPA Ratio (including NPIs)	>6% but ≤ 9%	>9% but ≤12%	>12%

G. Exit from PCA and Withdrawal of Restrictions under PCA - Once a NBFC is placed under PCA, taking the NBFC out of PCA Framework and/or withdrawal of restrictions imposed under the PCA Framework will be considered: a) if no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be Annual Audited Financial Statement (subject to assessment by RBI); and b) based on Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the NBFC.

H. The menu of corrective actions is as below:

<table>
<tr><th colspan="3">Mandatory and Discretionary actions</th></tr>
<tr><th>Specifications</th><th>Mandatory actions</th><th>Discretionary actions</th></tr>
<tr><td>Risk Threshold 1</td><td>Restriction on dividend distribution/remittance of profits;
Promoters/shareholders to infuse equity and reduction in leverage;
Restriction on issue of guarantees or taking on other contingent liabilities on behalf of group companies (only for CICs)</td><td rowspan="3"><u>Common menu</u>
Special Supervisory Actions
Strategy related
Governance related
Capital related
Credit risk related
Market risk related
HR related
Profitability related</td></tr>
<tr><td>Risk Threshold 2</td><td>In addition to mandatory actions of Threshold 1,
Restriction on branch expansion</td></tr>
<tr><td>Risk Threshold 3</td><td>In addition to mandatory actions of Threshold 1 & 2,</td></tr>
</table>

	• Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits • Restrictions/reduction in variable operating costs	• Operations/Business related • Any other.

Common Menu for Selection of Discretionary Corrective Actions

1. Special Supervisory Actions

- Special Supervisory Monitoring Meetings (SSMMs) at quarterly or other identified frequency
- Special inspections/targeted scrutiny of the NBFC
- Cause a special audit/inspection of NBFC/Group entities by the extant supervisory mechanism and/or through external auditors
- Restricted and need based regulatory/supervisory approvals to be given by the Reserve Bank
- Resolution of NBFC by Amalgamation/ Reconstruction/ Splitting (Section 45MBA of RBI Act, 1934)
- File insolvency application under IBC (As per the rules dated November 15, 2019 notified under section 239 of the Insolvency and Bankruptcy Code, 2016 (31 of 2016))
- Show Cause Notice for cancellation of CoR and winding up of the NBFC

2. Strategy related Actions

- Activate the Recovery Plan that has been duly approved by the Supervisor
- Undertake a detailed review of business model in terms of sustainability of the business model, profitability of business lines and activities, medium and long term viability, etc.
- Review short-term strategy focusing on addressing immediate concerns
- Review medium-term business plans, identify achievable targets and set concrete milestones for progress and achievement

- Undertake business process reengineering as appropriate
- Undertake restructuring of operations as appropriate

3. Governance related Actions

- RBI may actively engage with the NBFC's Board on various aspects as considered appropriate
- RBI may recommend to promoters/shareholders to bring in new Management/ Board
- RBI may remove managerial persons under the RBI Act, as applicable
- Removal of Director and/or appointment of another person as Director in his place
- RBI may supersede the Board under the RBI Act and appoint an Administrator
- RBI may require the NBFC to invoke claw back and malus clauses and other actions as available in regulatory guidelines, and impose other restrictions or conditions
- Impose restrictions on Directors' or Management compensation, as applicable.

4. Capital related Actions

- Detailed Board level review of capital planning
- Submission of plans and proposals for raising additional capital
- Requiring the NBFC to bolster reserves through retained profits
- Restriction on investment in subsidiaries/associates
- Restriction in expansion of high risk-weighted assets to conserve capital
- Reduction in exposure to high-risk sectors to conserve capital
- Restrictions on increasing stake in subsidiaries and other group companies

5. Credit risk related Actions

- Preparation of time bound plan and commitment for reduction of stock of NPAs
- Preparation of and commitment to plan for containing generation of fresh NPAs
- Strengthening of loan review mechanism
- Restrictions/reduction in total credit risk weight density (example: restriction/ reduction in credit for borrowers below certain rating grades, restriction/reduction in unsecured exposures, etc.)

- Reduction in loan concentrations in identified sectors, industries or borrowers
- Sale of assets
- Action plan for recovery of assets through identification of areas (geography-wise, industry segment-wise, borrower-wise, etc.) and setting up of dedicated Recovery Task Forces, etc.
- Prohibition on expansion of credit/ investment portfolios other than investment in government securities / other High-Quality Liquid Investments
- Higher provisioning for NPAs/NPIs

6. Market risk related Actions

- Restrictions on/reduction in borrowings from the debt market
- Restrictions on extent of ALM mismatch
- Restrictions on accepting/ renewing deposits and escrowing of cash inflows to meet deposit liabilities to protect the interest of the depositors
- Restrictions on investment activities

7. HR related Actions

- Restriction on staff expansion/staff compensation
- Review of specialized training needs of existing staff

8. Profitability related Actions

- Restrictions on capital expenditure, other than for technological upgradation within Board approved limits
- Restrictions/reduction in variable operating costs

9. Operations related Actions

- Restrictions on branch expansion plans; domestic or overseas
- Reduction in business at subsidiaries/ in other entities
- Restrictions on entering into new lines of business
- Reduction in leverage
- Reduction in risky assets
- Restrictions in undertaking businesses, as may be specified

- Restriction/reduction of outsourcing activities
- Restrictions on new borrowings

10. Any other specific action that the RBI may deem fit considering specific circumstances of the NBFC.

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