



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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July 1, 2013

To,

All Non-Banking Financial Companies (NBFCs)

Dear Sirs,

Master Circulars - Miscellaneous Instructions to All Non-Banking Financial Companies

In order to have all current instructions in one place, the Reserve Bank of India has issued master circulars to NBFCs on various subjects. It is advised that Miscellaneous Directions / Instructions issued upto June 30, 2013, which do not find a place in such master circulars have been compiled herein. A consolidated list of all such instructions is enclosed for ready reference. The Master circular has also been placed on the RBI web-site (<http://www.rbi.org.in>).

Yours faithfully,

(N. S. Vishwanathan)
Principal Chief General Manager

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1. Asset Liability Management (ALM) System for NBFCs - Guidelines

It was decided to introduce an ALM System for the Non-Banking Financial Companies (NBFCs), as part of their overall system for effective risk management in their various portfolios. The abovementioned guidelines would be applicable to all the NBFCs irrespective of whether they are accepting / holding public deposits or not. However to begin with, NBFCs (engaged in and classified as equipment leasing, hire purchase finance, loan, investment and residuary non-banking companies) meeting the criteria of asset base of Rs.100 crore (whether accepting / holding public deposits or not) or holding public deposits of Rs. 20 crore or more (irrespective of their asset size) as per their audited balance sheet as of 31 March 2001 would be required to put in place the ALM System.

A system of half yearly reporting was put in place in this regard and the first Asset Liability Management return as on 30 September 2002 was to be submitted to RBI by only those NBFCs which are holding public deposits within a month of close of the relevant half year i.e., before 31 October 2002 and continue thereafter in similar manner. The half yearly returns would comprise of three parts :

- (i) Statement of structural liquidity in format ALM
- (ii) Statement of short term dynamic liquidity in format ALM and
- (iii) Statement of Interest Rate Sensitivity in format ALM.

In the case of companies not holding public deposits, separate supervisory arrangements would be made and advised in due course of time.

2. Nomination rules under Section 45QB of RBI Act for NBFC Deposits

In terms of Section 45QB of the RBI Act, the depositor/s of NBFCs may nominate, in the manner prescribed under the rules made by the Central Government under Section 45ZA of the Banking Regulation Act, 1949 (B.R.Act). **one person** to whom, in the event of death of the depositor/s, the amount of deposit may be returned by the NBFC. It has been decided in consultation with the Government of India, that the Banking Companies (Nomination) Rules, 1985 are the relevant rules made under Section 45ZA of the B. R. Act. A copy of the rules is enclosed. Accordingly, NBFCs may accept nominations made by the depositors in the form similar to that specified under the said rules.

3. Safe Custody of Liquid Assets / Collection of Interest on SLR Securities

NBFCs including RNBCs are required to maintain liquid assets in the form of Government securities / guaranteed bonds as per the provisions of Section 45-IB of the RBI Act and lodge such securities in a Constituents' Subsidiary General Ledger (CSGL) Account with a scheduled commercial bank (SCB) / Stock Holding Corporation of India

Ltd., (SHCIL) or in a demat account with a depository through a depository participant (DP) registered with Securities & Exchange Board of India (SEBI) or with a branch of SCB to the extent such securities are yet to be dematerialised.

In order to protect the interest of depositors, an exclusive CSGL or demat account to hold Government securities shall be maintained for securities held for the purpose of compliance with Section 45-IB of the RBI Act. This account should be operated only for purchase or sale of securities due to increase or decrease in the quantum of public deposits or withdrawal of securities for encashment on maturity or for repayment to depositors in special circumstances, and not be used to undertake repo or other transactions.

In case an NBFC (including RNBC) deals in the government securities in a manner other than that permitted above, another CSGL account may be opened for this purpose.

It is also observed that some of the NBFCs have either not dematerialised the government securities or have dematerialized but failed to report the same to the RBI. For this purpose the quarterly liquid asset return in the reporting formats of NBS 3 and NBS 3A has been amended to include the information about the demat accounts, which will ensure that the information in this regard is not omitted by NBFCs.

It may be possible that there may be a few Government securities / Government guaranteed bonds that have not been dematerialized and are held in physical form which for the purpose of collection of interest are withdrawn from the safe custody with their designated bankers and re-deposited with the banks after collection of interest. To avoid the process of withdrawal and re-depositing the same it has now been decided that NBFCs / RNBCs shall authorize the designated banks as agents for collection of interest on due dates on these securities held in physical form and lodged for safe custody. NBFCs / RNBCs may approach their designated banker and exercise a Power of Attorney in favour of the designated bank to enable it to collect interest on the securities / guaranteed bonds held in physical form on the due date.

4. Prudential Norms Directions - Preparation of Balance Sheet as on March 31 of every year

In terms of paragraph 9B of Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 NBFCs are to prepare the Balance Sheet and profit and loss account as on March 31 every year. Whenever an NBFC intends to extend the date of its Balance Sheet as per provisions of the Companies Act, it should take prior approval of the RBI before approaching the ROC for this purpose. It may, however, be clarified that even in the cases where RBI and ROC grant extension of time, the company would be required to furnish to RBI a Proforma Balance Sheet (unaudited) as on March 31 of the year and the statutory returns due on the above date.

5. Certificate of Registration (CoR) issued under Section 45-IA of the RBI Act, 1934 - Continuation of business of NBFIs - Submission of Statutory Auditors Certificate - Clarification

It has been observed that there are NBFCs which are no longer engaged in the business of NBFIs and hence are not required / eligible to hold the CoR granted by RBI, but still continue to do so. In order to ensure that CoRs are only held by NBFCs which are actually engaged in the business of NBFIs, all NBFCs should submit a certificate from their Statutory Auditors every year to the effect that they continue to undertake the business of NBFIs requiring holding of CoR under Section 45-IA of the RBI Act, 1934.

It is clarified 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.

Non- Reckoning Fixed Deposits with Banks as Financial Assets

It was clarified, that the Reserve Bank issues a Certificate of Registration for the specific purpose of conducting NBFI activities. Investments in fixed deposits cannot be treated as financial assets and receipt of interest income on fixed deposits with banks cannot be treated as income from financial assets as these are not covered under the activities mentioned in the definition of "financial Institution" in Section 45I(c) of the RBI Act 1934. Besides, bank deposits constitute near money and can be used only for temporary parking of idle funds, and/or in the above cases, till commencement of NBFI business.

In addition, the NBFC which is in receipt of a CoR from the Bank must necessarily commence NBFC business within six months of obtaining CoR. If the business of NBFC is not commenced by the company within the period of six months from the date of issue of CoR, the CoR will stand withdrawn automatically. Further, there can be no change in ownership of the NBFC prior to commencement of business and regularization of its CoR

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

All NBFCs / RNBCs are instructed to follow the guidelines on transactions in Government Securities as given in the [circular IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004](#) meticulously, wherever applicable. The revised guidelines come into effect from April 2, 2004.

All NBFCs including RNBCs may refer to the [circular IDMD.PDRS.4777, 4779 & 4783/10.02.01/2004-05 all dated May 11, 2005](#) addressed to all RBI regulated entities. All NBFCs / RNBCs are instructed to follow the guidelines on transactions in

Government Securities as given in the circulars meticulously, wherever applicable. In cases of doubt they may refer to IDMD.

7. FIMMDA Reporting Platform for Corporate Bond Transactions

SEBI has permitted FIMMDA to set up its reporting platform for corporate bonds. It has also been mandated to aggregate the trades reported on its platform as well as those reported on BSE and NSE with appropriate value addition.

All NBFCs would be required to report their secondary market transactions in corporate bonds done in OTC market, on FIMMDA's reporting platform with effect from September 1, 2007. Detailed operational guidelines in this regard would be issued by FIMMDA. In the meanwhile, the NBFCs may approach FIMMDA directly for participating in the mock reporting sessions.

8. Prior Public Notice about change in control / management

Need for public notice before (a) Closure of the Branch / Office by any NBFC (b) Sale / Transfer of Ownership by an NBFC

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

(b) (i) A public notice of 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares. Such public notice shall be given by the NBFC and also by the transferor, or the transferee or jointly by the parties concerned.

For this purpose, the term 'control' shall have the same meaning as defined in Regulation 2(1)(c) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

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

9. Change in Management and Mergers / Amalgamation

It has been observed that the change in management also takes place by way of amalgamation / merger of an NBFC with another NBFC or a non-financial company and as such, these mergers / amalgamations would tantamount to the change in the management, as aforesaid.

It would be obligatory on the part of such an NBFC seeking change in management or merger or amalgamation with any other company to give an option to every depositor to decide whether to continue the deposits with the company under the new management or the transferee company or not. The company would also be obliged to make the payment to the depositors who seek the repayment of their deposits. The Bank would view the non-compliance of the above instructions very seriously and penal action would be initiated against the defaulter company on the merits of each case.

The following changes are effected in the above instructions in January 2006 :

(i) *Merger and Amalgamation in terms of the High Court Order*

(a) Where merger and amalgamation takes place in terms of the High Court order in pursuance of Sections 391 and 394 of the Companies Act 1956, the company shall inform the Bank about merger or amalgamation along with Court's order approving the same within a period of one month from the date of the order. As the public notice is given by the companies under the Companies Act 1956 and Rules made thereunder, no further public notice is required to be given by the companies in terms of the Bank's Circular as mentioned above.

(b) However there will be no change in other instructions contained in paragraph 5(iii) (b) of the Company Circular [DNBS\(PD\).CC.No.12/02.01/99-2000 dated January 13, 2000](#).

10. The Non-Banking Financial Companies (Deposit Accepting) (Approval of Acquisition or Transfer of Control) Directions, 2009.

In exercise of the powers conferred by sections 45K and 45L of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, 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 so to do, gives to every deposit taking NBFC the Directions hereinafter specified.

Short title and commencement of the Directions

1. (1) These Directions shall be known as the Non-Banking Financial Companies (Deposit Accepting) (Approval of Acquisition or Transfer of Control) Directions, 2009.

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

Definitions

2. For the purpose of these Directions, unless the context otherwise requires, -

(a) "control" shall have the same meaning as is assigned to it under clause (c) of sub-regulation (1) of regulation 2 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

(b) "NBFC" means non-banking financial company as defined in clause (xi) of sub-paragraph (1) of Paragraph 2 of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

Prior approval of RBI in cases of acquisition or transfer of control of deposit taking NBFCs

Any takeover or acquisition of control of a deposit taking NBFC, whether by acquisition of shares or otherwise, or any merger / amalgamation of a deposit taking NBFC with another entity, or any merger / amalgamation of an entity with a deposit taking NBFC, shall require prior written approval of Reserve Bank of India.

Application of other laws not barred

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other law, rules, regulations or directions, for the time being in force.

Exemptions

The Reserve Bank of India may, if it considers necessary for avoiding any hardship or for any other just and sufficient reason, exempt any NBFC or class of NBFCs, 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.

(ii) Other cases

Where merger and amalgamation or change in the management of the company takes place upon sale / transfer otherwise than as stated in sub-paragraph (i) above, the NBFCs (including RNBCs) (deposit taking and non-deposit taking companies) should give prior public notice of 30 days.

11. Cover for public deposits - creation of floating charge on Liquid Assets by deposit taking NBFCs

NBFCs raise funds for their operations from various sources like public deposits, bank borrowings, inter-corporate deposits, secured / unsecured debentures, etc.

In order to ensure protection of depositors interest, NBFCs should ensure that at all times there is full cover available for public deposits accepted by them. While calculating this cover the value of all debentures (secured and unsecured) and outside liabilities other than the aggregate liabilities to depositors may be deducted from the total assets. Further, the assets should be evaluated at their book value or realizable / market value whichever is lower for this purpose. It shall be incumbent upon the NBFC concerned to inform the Regional Office of the Reserve Bank in case the asset cover calculated as above falls short of the liability on account of public deposits. NBFCs accepting / holding public deposits were directed to create a floating charge on the statutory liquid assets invested in terms of Section 45-IB of the RBI Act, 1934, in favour of their depositors. Such charge should be duly registered in accordance with the requirements of the Companies Act, 1956.

In view of the practical difficulties expressed by the NBFCs in creating charge on the statutory liquid assets in favour of large number of depositors, it was subsequently decided that NBFCs accepting / holding public deposits may create the floating charge on the statutory liquid assets maintained in terms of Section 45-IB of the RBI Act, 1934 and notifications issued by the Bank from time to time, in favour of their depositors through the mechanism of 'Trust Deed'.

12. Unsolicited Commercial Communications - National Do Not Call Registry

It is an emerging practice in India to engage agents / outsource business operations for the purpose of soliciting or promoting any commercial transactions using telecommunication mode. There is a need to protect the right to privacy of the members of public and to curb the complaints relating to unsolicited commercial communications being received by customers / non-customers, as part of best business practices.

Telecom Regulatory Authority of India (TRAI) has framed the Telecom Unsolicited Commercial Communications (UCC) Regulations for curbing UCC. Further, the Department of Telecommunications (DoT) has issued relevant guidelines for telemarketers alongwith the registration procedure on June 6, 2007. These guidelines have made it mandatory for telemarketers to register themselves with DoT or any other agency authorized by DoT and also specified that the telemarketers shall comply with the Guidelines and Orders / Directions issued by DoT and Orders / Directions / Regulations issued by Telecom Regulatory Authority of India (TRAI) on Unsolicited Commercial Communications(UCC). The detailed procedure in this regard is also available on TRAI's website (www.traai.gov.in).

NBFCs are therefore; advised

- (i) not to engage Telemarketers (DSAs / DMAs) who do not have any valid registration certificate from DoT, Govt of India, as telemarketers;
- (ii) to furnish the list of Telemarketers (DSAs/DMAs) engaged by them along with the registered telephone numbers being used by them for making telemarketing calls to TRAI; and
- (iii) to ensure that all agents presently engaged by them register themselves with DoT as telemarketers.

13. Requirement of minimum NOF of Rs. 200 lakh for all deposit taking NBFCs

In accordance with the consultative approach adopted by the Bank in framing of guidelines, a draft circular on enhancement of minimum NOF level for deposit taking NBFCs was placed on web-site www.rbi.org.in on May 21, 2007.

The suggestions / comments received in this regard were considered. To ensure a measured movement towards strengthening the financials of all deposit taking NBFCs by increasing their NOF to a minimum of Rs.200 lakh in a gradual, non-disruptive and non-discriminatory manner, it has been decided to prescribe that :

- (a) As a first step, NBFCs having minimum NOF of less than Rs. 200 lakh may freeze their deposits at the level currently held by them.
- (b) Further, Asset Finance Companies (AFC) having minimum investment grade credit rating and CRAR of 12% may bring down public deposits to a level that is 1.5 times their NOF while all other companies may bring down their public deposits to a level equal to their NOF by March 31, 2009.
- (c) Those companies which are presently eligible to accept public deposits upto a certain level, but have, for any reason, not accepted deposits upto that level will be permitted to accept public deposits upto the revised ceiling prescribed above.
- (d) Companies on attaining the NOF of Rs.200 lakh may submit statutory auditor's certificate certifying its NOF.
- (e) The NBFCs failing to achieve the prescribed ceiling within the stipulated time period, may apply to the Reserve Bank for appropriate dispensation in this regard which may be considered on case to case basis.

14. Reclassification of NBFCs

In terms of Company [Circular DNBS.PD.CC No.85/03.02.089/2006-07 dated December 06, 2006](#) it was advised that NBFCs financing real / physical assets for productive / economic activity and to be classified as Asset Finance Company (AFC) as per the criteria given under paragraph 4 of that circular supported by

Statutory Auditors' certificate indicating the asset / income pattern of the company as on March 31, 2006 latest by .

December 31, 2008 after which NBFCs which have not opted for the classification would be deemed to be loan companies.

15. Monitoring Framework for non-deposit taking NBFCs with asset size of Rs 50 crore and above but less than Rs 100 crore

It was decided to call for basic information from non-deposit taking NBFCs with asset size of Rs 50 crore and above but less than Rs 100 crore at quarterly intervals. The first such returns for the quarter ended September 2008 were to be submitted by first week of December 2008. The quarterly return as at the end of each quarter were to be filed online with the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the company was registered, within a period of one month from the close of the quarter, while the the procedure / system for online submission would be conveyed at a later date.

Applicable NBFCs were later advised to submit the above return as hard copy and soft copy (via e-mail in Excel format) to the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction their company was registered, within a period of one month from the close of the quarter, till the online procedure in this regard is advised.

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

As creation of DTA or DTL would give rise to certain issues impacting the balance sheet of the company, it is clarified that the regulatory treatment to be given to these issues are as under :-

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

- NBFCs may keep the above clarifications in mind for all regulatory requirements including computation of CRAR and ensure compliance with effect from the accounting year ending March 31, 2009.

In this connection it is further clarified that

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

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

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

DTA computed as under should be deducted from Tier I capital :

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

17. Introduction of Interest Rate Futures - NBFCs

All NBFCs (excluding RNBCs) were advised to refer to the Directions issued by the Reserve Bank of India in terms of [Notification No. FMD.1/ED\(VKS\)-2009 dated August 28, 2009](#), covering the framework for trading of Interest Rate Futures (IRFs) in recognized exchanges in India.

It has been decided that NBFCs may participate in the designated interest rate futures exchanges recognized by SEBI, as clients, subject to RBI / SEBI guidelines in the matter, for the purpose of hedging their underlying exposures.

NBFCs participating in IRF exchanges may submit the data in this regard half yearly, in the format enclosed, to the Regional office of the Department of Non-Banking Supervision in whose jurisdiction their company is registered, within a period of one month from the close of the half year.

18. Compliance with FDI norms-Half yearly certificate from Statutory Auditors of NBFCs

NBFCs having FDI whether under automatic route or under approval route have to comply with the stipulated minimum capitalisation norms and other relevant terms and conditions, as amended from time to time under which FDI is permitted.

As such these NBFCs are required to submit a certificate from their Statutory Auditors on half yearly basis (half year ending September and March) certifying compliance with the existing terms and conditions of FDI. Such certificate may be submitted not later than one month from the close of the half year to which the certificate pertains, to the Regional Office in whose jurisdiction the head office of the company is registered.

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

In a case which came up before the Hon'ble High Court of Judicature at Bombay, the Hon'ble Court observed that the bank granting finance in housing, should insist on projects, disclosure of the charge or any other liability on the plot in question or development project being duly made in the Brochure or pamphlet etc. which may be published by developer / owner inviting public at large to purchase flats and properties. The Court also added that this obviously would be part of the terms and conditions on which the loan may be sanctioned by the bank.

Keeping in view the above, it is felt desirable that while granting finance to housing / development projects, NBFCs also should stipulate as a part of the terms and conditions that :

- (i) the builder / developer / owner / company would disclose in the Pamphlets / Brochures / advertisements etc., the name(s) of the entity to which the property is mortgaged.
- (ii) the builder / developer / owner / company should indicate in the pamphlets / brochures, that they would provide No Objection Certificate (NOC) / permission of the mortgagee entity for sale of flats / property, if required.

NBFCs were advised to ensure compliance with the above stipulations and funds should not be released unless the builder / developer / owner / company fulfils the above requirements.

20. Loan facilities to the physically / visually challenged by NBFCs

It was brought to the notice of RBI that a NBFC has discriminated against physically / visually challenged persons in the matter of offering loans.

NBFCs were therefore advised that there shall be no discrimination in extending products and facilities including loan facilities to the physically / visually challenged applicants on grounds of disability. NBFCs were also instructed to advise their branches to render all possible assistance to such persons for availing of the various business facilities.

21. Participation in Currency Futures

Reserve Bank had issued guidelines to banks on trading in currency futures in recognised stock/new exchanges on August 6, 2008. It was decided that all NBFCs excluding RNBCs may participate in the designated currency futures exchanges recognized by SEBI as clients, subject to RBI (Foreign Exchange Department) guidelines in the matter, only for the purpose of hedging their underlying forex exposures. NBFCs were advised to make appropriate regarding transactions undertaken in the Balance sheet.

22. Services to persons with Disability - Training Programme for Employees

In terms of [DNBS.CC.PD.No.191/03.10.01/2010-11 dated July 27, 2010](#) NBFCs were advised that there shall be no discrimination in extending products and facilities including loan facilities to the physically / visually challenged applicants on grounds of disability and that they may also advise their branches to render all possible assistance to such persons for availing of the various business facilities.

In continuation to the above, NBFCs are advised that they may include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels. Further, NBFCs may ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up by them.

23. Submission of data to Credit Information Companies - Format of data to be submitted by Credit Institutions

In terms of Section 2(f)(ii) of the Credit Information Companies (Regulation) Act, 2005, a non-banking financial company as defined under clause (f) of Section 45-I of the Reserve Bank of India Act, 1934 has also been included as "credit institution". Further, the Credit Information Companies (Regulation) Act provides that every credit institution in existence shall become a member of at least one credit information company. Thus all NBFCs being credit institutions are required to become a member of at least one credit information company as per the statute.

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

(a) keep the credit information maintained by it, updated regularly on a monthly basis or at such shorter intervals as may be mutually agreed upon between the credit institution and the credit information company; and

(b) take all such steps which may be necessary to ensure that the credit information furnished by it, is update, accurate and complete.

It is therefore, advised that NBFCs which have become member / members of any new credit information company / companies may provide them the current data in the existing format. Such NBFCs may also provide historical data in order to enable the new credit information companies to validate their software and develop a robust database. Care should be taken to ensure that no wrong data / history regarding borrowers is given to Credit Information Companies.

24. Implementation of Green Initiative of the Government

As part of the 'Green Initiative' of the Government, the Government of India has suggested that steps be taken by entities in financial sector, including NBFCs to help better utilisation of their resources and also better delivery of services.

NBFCs were therefore, requested to take proactive steps in this regard by increasing the use of electronic payment systems, elimination of post-dated cheques and gradual phase-out of cheques in their day to day business transactions which would result in more cost-effective transactions and faster and accurate settlements.

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

In view of reports of instances of frauds involving fake Bank Guarantee with forged signature etc in certain bank branches, NBFCs were advised to take notice of the names of the beneficiaries /representative of beneficiaries and applicants of BGs in order to exercise due caution while handling cases involving the firms/individuals cited in the circular.

26. Credit Default Swaps – NBFCs as Users

NBFCs shall only participate in CDS market as users. As users, they would be permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They are not permitted to sell protection and hence not permitted to enter into

short positions in the CDS contracts. However, they are permitted to exit their bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond.

Apart from complying with all the provisions above, NBFCs were advised that, as users, they shall also be required to ensure that the guidelines enclosed including operational requirements for CDS are fulfilled by them.

27.¹ Revisions to the Guidelines on Securitisation Transactions

Detailed Guidelines on Securitisation of Standard Assets were issued to NBFCs vide [Circular DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 01, 2006](#).

In order to prevent unhealthy practices surrounding securitization viz; origination of loans for the sole purpose of securitization and in order to align the interest of the originator with that of the investors and with a view to redistribute credit risk to a wide spectrum of investors, it was felt necessary that originators should retain a portion of each securitization originated and ensure more effective screening of loans. In addition, a minimum period of retention of loans prior to securitization was also considered desirable, to give comfort to the investors regarding the due diligence exercised by the originator. Keeping in view the above objectives, it was decided to extend the guidelines issued in this regard to banks and NBFCs also. (Annex -3). The guidelines also include, inter alia, bilateral sale of assets, accounting of profits and disclosures.

28. ²Standardisation and Enhancement of Security Features in Cheque Forms - Migrating to CTS 2010 Standards

All NBFCs were advised about the "CTS-2010 standard" which is a set of benchmarks towards achieving standardisation of cheques issued by banks across the country and include provision of mandatory minimum security features on cheque forms like quality of paper, watermark, bank's logo in invisible ink, void pantograph, etc., and standardisation of field placements on cheques. NBFCs were advised that "CTS-2010 standard" were to be implemented by December 31, 2012 and those NBFCs who accept post dated cheques from their customers for future EMI payments were required to ensure the replacement of Non-CTS-2010 standard compliant cheques with CTS-2010 standard compliant cheques before December 31, 2012. However,³ taking into consideration the representations from NBFCs, it was decided to extend the time up to March 31, 2013 to ensure withdrawal of Non-CTS 2010 Standard compliant cheques and replace them with CTS-2010 Standard compliant cheques. However, NBFCs were advised to note that the residual Non-CTS-2010 Standard compliant cheques that get

¹ Inserted vide DNBS. PD. No. 301/3.10.01/2012-13 dated 21.8.12

² Inserted vide DNBS.PD/ CC.NO.308 /03.10.001/2012-13 dated 6.11.12

³ Inserted vide DNBS.PD.CC.No. 317/03.10.001/2012-13 dated 20.12.12

presented in the clearing system beyond the extended period, will continue to be accepted for the clearing but will be cleared at less frequent intervals.

29. ⁴Readiness of major service providers to migrate from IPv4 to IPv6

Government has envisaged providing “Broadband on Demand” by 2015 in the recently unveiled National Telecom Policy (NTP) – 2012 emphasizing the role of Internet as catalyst for socio-economic development of a country which serves as an effective medium of various citizen centric services in today’s information economy. Since the current version of Internet Protocol (IPv4) has almost run out of addresses, NTP-2012 recognizes the futuristic role of next generation Internet Protocol IPv6 and aims to achieve substantial transition to IPv6 in the country.

Department of Telecommunication under the Ministry of Communication and Information Technology, Government of India has undertaken the initiative of migration from IPv4 to IPv6.

Since migration to IPv6 is an eventuality that has to be accepted and managed proactively, NBFCs/RNBCs were advised to initiate necessary action by constituting a special team to complete the migration by December 2012.

30. ⁵Checklist for NBFCs, Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs), Non Banking Financial Company-Factoring Institutions (NBFC-Factors) and Core Investment Companies (CICs)

Five checklists with respect to Application for seeking Certificate of Registration from the Reserve Bank have been uploaded in the RBI website, a) documents required for registration as NBFCs b) documents required for registration of NBFC-MFI – New Companies and c) documents required for registration of NBFC-MFI (Existing NBFCs) d) documents required for registration of NBFC – Factors and e) documents required for registration as CIC-ND-SI. (Annex 4)

Checklists mentioned are indicative and not exhaustive. Bank can, if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC. In the event of the Bank calling for further documents in addition to those mentioned in the checklist, the applicant company must respond within a stipulated time of one month failing which the application/request for conversion along with all the documents will be returned to the company for submission afresh with the required information/documents

⁴ Inserted vide DNBS(Inf.).CC. No 309/24.01.022 /2012-13 dated 8.11.12

⁵ Inserted vide DNBS.CC.PD.No. 312 /03.10.01/2012-13 dated 7.12.13

31. ⁶Raising Money through Private Placement by NBFCs-Debentures etc.

NBFCs raise money by issuing capital/debt securities including debentures by way of public issue or private placement. In the case of public issue of such securities, institutions and retail investors can participate. Private placement, on the other hand, may involve institutional investors. It has however been observed that NBFCs have lately been raising resources from the retail public on a large scale, through private placement, especially by issue of debentures.

2. As certain adverse features have come to the notice of the Reserve Bank in private placements by certain NBFCs, it has been decided to put in place a minimum set of guidelines (given in the annex) for compliance by all NBFCs. The Guidelines require NBFCs to space out such issuances and also aim to bring NBFCs at par with other financial entities as far as private placement is concerned by restricting the maximum number of subscribers to forty nine (currently the ceiling of investors stipulated by the Companies Act 1956 for private placement is not applicable for NBFCs). It may be noted that all other extant guidelines on private placement remain unchanged. The provisions of these guidelines will however override other instructions in this regard, wherever contradictory (Annex-5).

3. In addition, certain clarifications are also made with regard to security cover for any debenture issue and the treatment of unsecured debentures as public deposits.

4. These instructions come into effect immediately.

⁶ Inserted vide DNBS(PD)CC.NO 330/03.10.01/2012-13 dated June 27, 2013

Guidelines for Credit Default Swaps - NBFCs as users

Definitions

The following definitions are used in these guidelines:

- (i) **Credit event payment** – the amount which is payable by the credit protection seller to the credit protection buyer under the terms of the credit derivative contract following the occurrence of a credit event. The payment can be only in the form of **physical settlement** (payment of par in exchange for physical delivery of a deliverable obligation).
- (ii) **Underlying asset / obligation** – The asset⁷ which a protection buyer is seeking to hedge.
- (iii) **Deliverable asset / obligation** – any obligation⁸ of the reference entity which can be delivered, under the terms of the contract, if a credit event occurs. (Assets under (iii) above, will rank at least *pari-passu* or junior to the underlying obligation).
- (iv) **Reference obligation** - the obligation⁹ used to calculate the amount payable when a credit event occurs under the terms of a credit derivative contract. [A reference obligation is relevant for obligations that are to be cash settled (on a par-less-recovery basis).]

2. Operational requirements for CDS

- a) A CDS contract should represent a direct claim on the protection seller and should be explicitly referenced to specific exposure, so that the extent of the cover is clearly defined and incontrovertible.
- b) Other than non-payment by a protection buyer of premium in respect of the credit protection contract, it should be irrevocable.
- c) There should be no clause in the contract that would allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.
- d) The CDS contract should be unconditional; there should be no clause in the protection contract outside the direct control of the NBFC that could prevent the protection seller from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.
- e) The credit events specified by the contracting parties should at a minimum cover:
 - (i) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);

⁷ Please refer to paragraph 2.4 of the circular IDMD.PCD.No. 5053 /14.03.04/2010-11 dated May 23, 2011

⁸ For the present, only deliverable obligation permitted in terms of guidelines on CDS vide circular IDMD.PCD.No. 5053 /14.03.04/2010-11 dated May 23, 2011.

⁹ Please refer to paragraph 2.4 of the circular IDMD.PCD.No. 5053 /14.03.04/2010-11 dated May 23, 2011

- (ii) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
 - (iii) restructuring of the underlying obligation (as contemplated in the guidelines on CDS issued vide [Circular No. IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011](#)) involving forgiveness or postponement of principal, interest or fees that results in a credit loss event;
 - (iv) when the restructuring of the underlying obligation is not covered by the CDS, but the other requirements in paragraph 2 are met, partial recognition of the CDS will be allowed. If the amount of the CDS is less than or equal to the amount of the underlying obligation, 60% of the amount of the hedge can be recognised as covered. If the amount of the CDS is larger than that of the underlying obligation, then the amount of eligible hedge is capped at 60% of the amount of the underlying obligation.
- f) If the CDS specifies deliverable obligations that are different from the underlying obligation, the resultant asset mismatch will be governed under paragraph (j).
- g) The CDS shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay¹⁰.
- h) If the protection buyer's right/ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation should provide that any required consent to such transfer may not be unreasonably withheld.
- i) The identity of the parties responsible for determining whether a credit event has occurred should be clearly defined. This determination should not be the sole responsibility of the protection seller. The protection buyer should have the right/ability to inform the protection seller of the occurrence of a credit event.
- j) A mismatch between the underlying obligation and the reference obligation or deliverable obligation is permissible if (1) the reference obligation or deliverable obligation ranks *pari passu* with or is junior to the underlying obligation, and (2) the underlying obligation and reference obligation or deliverable obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross-default or cross-acceleration clauses are in place.
- (k) A mismatch between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible if (1) the latter obligation ranks *pari passu* with or is junior to the underlying obligation, and (2) the underlying obligation and reference obligation share the same obligor

¹⁰ Definition of maturity – the maturity of the underlying exposure and the maturity of the hedge should both be defined conservatively. The effective maturity of the underlying should be gauged as the longest possible remaining time before the counterparty is scheduled to fulfill its obligation, taking into account any applicable grace period.

(i.e. the same legal entity) and legally enforceable cross-default or cross acceleration clauses are in place.

3. Treatment of exposures below materiality thresholds

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

4. Prudential treatment post-credit event

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

5. Capital Adequacy

In terms of NBFC Prudential Norms Directions, 2007, risk weights for credit risk for corporate bonds held by NBFCs is 100%. A CDS contract creates a counterparty exposure on the protection seller on account of the credit event payment. In case of hedging of the cash position by CDS, the exposure will be reckoned on the protection seller subject to the conditions mentioned in para 6 below. NBFCs shall calculate the counterparty credit risk charge for all bought CDS positions as the sum of the current mark-to-market value, (if positive and zero, if MTM is negative) and the potential future exposure.

6. Treatment of exposure to the protection seller

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

- a. Operational requirements mentioned in para 2 are satisfied
- b. There is no maturity mis-match between the underlying asset and the deliverable obligation. If this condition is not satisfied, then the amount of credit protection to be recognised should be computed as indicated in paragraph 6.2 below.

In all other cases the exposure will be deemed to be on the underlying asset.

6.2 Risk weights as applicable to the underlying assets shall be applied for the unprotected portion of the exposure. The amount of credit protection shall be adjusted if

there are any mismatches between the underlying asset/ obligation and the deliverable asset / obligation with regard to *asset* or *maturity*. These are dealt with in detail in the following paragraphs.

6.3 Mismatches

The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset/ obligation and the deliverable asset / obligation with regard to *asset* or *maturity*.

(i) Asset mismatches

Asset mismatch will arise if the underlying asset is different from the deliverable obligation. Protection will be reckoned as available to the NBFC only if the mismatched assets meet the requirements specified in paragraph 2 (j) above.

(ii) Maturity mismatches

The NBFC would be eligible to reckon the amount of protection if the maturity of the credit derivative contract were to be equal to the maturity of the underlying asset. If, however, the maturity of the CDS contract is less than the maturity of the underlying asset, then it would be construed as a maturity mismatch. In case of maturity mismatch the amount of protection will be determined in the following manner:

- a. If the residual maturity of the credit derivative product is less than **three months** no protection will be recognized.
- b. If the residual maturity of the credit derivative contract is **three months** or more protection proportional to the period for which it is available will be recognised. When there is a maturity mismatch the following adjustment will be applied.

$$Pa = P \times (t - .25) \div (T - .25)$$

Where:

Pa = value of the credit protection adjusted for maturity mismatch

P = credit protection

t = min (T, residual maturity of the credit protection arrangement) expressed in years

T = min (5, residual maturity of the underlying exposure) expressed in years

Example: Suppose the underlying asset is a corporate bond of Face Value of Rs. 100 where the residual maturity is of 5 years and the residual maturity of the CDS is 4 years. The amount of credit protection is computed as under:

$$100 * \{(4-.25) \div (5-.25)\} = 100*(3.75 \div 4.75) = 78.95$$

- c. Once the residual maturity of the CDS contract reaches **three months**, protection ceases to be recognised.

6.4 NBFCs as users need to adhere to all the criteria required for transferring the exposures fully to the protection seller in terms of paragraph 7.1 above on an on-going basis so as to qualify for exposure relief on the underlying asset. In case any of these criteria are not met subsequently, the NBFC will have to reckon the exposure on the underlying asset. Therefore, NBFCs should restrict the total exposure to an obligor including that covered by way of CDS within an internal exposure ceiling considered appropriate by the Board of the NBFC in such a way that it does not breach the single / group borrower exposure limit prescribed by RBI. In case of the event of any breach in the single / group borrower exposure limit, the entire exposure in excess of the limit will be risk weighted at 667%. In order to ensure that consequent upon such a treatment, the NBFC does not breach the minimum capital requirement prescribed by RBI, it should keep sufficient cushion in capital in case it assumes exposures in excess of normal exposure limit.

6.5 No netting of positive and negative marked-to-market values of the contracts with the same counterparty will be allowed for the purpose of complying with the exposure norms.

7. General Provisions Requirements

For the CDS positions of NBFCs, they should hold general provisions for gross positive marked-to-market values of the CDS contracts.

8. Reporting Requirement:

On a quarterly basis, NBFCs should report "total exposure" in all cases where they have assumed exposures against borrowers in excess of the normal single / group exposure limits due to the credit protections obtained by them through CDS, guarantees or any other permitted instruments of credit risk transfer, to the Regional Office of Department of Non-Banking Supervision where they are registered.

9. NBFCs shall also disclose in their notes to accounts of balance sheet the details given in annex- 2.

Format of disclosure to be made in the Annual Financial Statements

(Rs. crore)

1. No. of transactions during the year

2. Amount of protection bought during the year

3. No. of transactions where credit event payment was received during the year

a) pertaining to current year's transactions

b) pertaining to previous year(s)' transactions

4. Outstanding transactions as on March 31:

a) No. of Transactions

b) Amount of protection

5. Net income/ profit (expenditure/ loss) in respect of CDS transactions during year-to-date:

a) premium paid

b) Credit event payments received (net of value of deliverable obligation).

Annex

Revisions to the Guidelines on Securitisation Transactions

Section A

Guidelines on Securitisation of Standard Assets

1 Requirements to be met by the originating NBFCs

1.1 Assets Eligible for Securitisation

In a single securitisation transaction, the underlying assets should represent the debt obligations of a homogeneous pool of obligors¹. Subject to this condition, all on-balance sheet standard assets² except the following, will be eligible for securitisation by the originators :

- i) Revolving credit facilities (e.g., Credit Card receivables)
- ii) Assets purchased from other entities
- iii) Securitisation exposures (e.g. Mortgage-backed / asset-backed securities)
- iv) Loans with bullet repayment of both principal and interest³.

1.2 Minimum Holding Period (MHP)

1.2.1 Originating NBFCs can securitise loans only after these have been held by them for a minimum period in their books. The criteria governing determination of MHP for assets listed below reflect the need to ensure that :

- * the project implementation risk is not passed on to the investors, and
- * a minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards

1.2.2 NBFCs can securitise loans only after a MHP counted from the date of full disbursement of loans for an activity / purpose; acquisition of asset (i.e., car, residential house etc.) by the borrower or the date of completion of a project, as the case may be. MHP would be defined with reference to the number of instalments to be paid prior to securitisation. MHP applicable to various loans depending upon the tenor and repayment frequency is given in the following table⁴.

Minimum Holding Period				
	Minimum number of instalments to be paid before securitisation			
	Repayment frequency - Weekly	Repayment frequency - Fortnightly	Repayment frequency - Monthly	Repayment frequency - Quarterly
Loans with original maturity up to 2 years	Twelve	Six	Three	Two
Loans with original maturity of more than 2 years and up to 5 years	Eighteen	Nine	Six	Three
Loans with original maturity of more than 5 years	-	-	Twelve	Four

1.2.3 The MHP will be applicable to individual loans in the pool of securitised loans. MHP will not be applicable to loans referred to in foot note 3 of para 1.1.

1.3 Minimum Retention Requirement (MRR)

1.3.1 The MRR is primarily designed to ensure that the originating NBFCs have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitised. In the case of long term loans, the MRR may also include a vertical tranche of securitised paper in addition to the equity / subordinate tranche, to ensure that the originating NBFCs have stake in the performance of securitised assets for the entire life of the securitisation process.

The originating NBFCs should adhere to the MRR detailed in the Table below while securitising loans :

Minimum Retention Requirements at the Time of Securitisation				
Type of Loan	MRR	Description of MRR		
Loans with original maturity of 24 months or less	5% of the book value of the loans being securitised	i)	Where securitisation involves neither credit tranching nor any first loss credit enhancement by originators	Investment in the securities issued by the Special Purpose Vehicle (SPV) equal to 5% of the book value of the loans being securitised
		ii)	Where securitisation involves no credit tranching, but involves originators providing first loss credit enhancements e.g. off-balance sheet supports, cash collaterals, overcollateralisation etc.	The originator would be providing the required credit enhancement If the first loss credit enhancement required is less than 5%, then the balance should be in the securities issued by the SPV.
		iii)	Where securitisation involves credit tranching but no first loss credit enhancement from originator	5% in equity tranche. If equity tranche is less than 5%, then balance paripassu in remaining tranches.
		iv)	Where securitisation involves credit tranching and first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	If the first loss credit enhancement is less than 5%, then balance in equity tranche. If first loss credit enhancement plus equity tranche is less than 5%, then remaining pari-passu in other tranches.
Loans with original maturity of more than 24 months	10% of the book value of the loans being securitised	i)	Where securitisation involves neither credit tranching nor any first loss credit enhancement	Investment in the securities issued by the SPV equal to 10% of the book value of the loans being securitised.
		ii)	Where securitisation involves no credit tranching, but involves first loss credit	The originator would be providing required credit enhancement. If this is less than 10%, then

			enhancements from originators e.g., offbalance sheet supports, cash collaterals, overcollateralisation etc.	balance in the securities issued by the SPV.
		iii)	Where securitisation involves credit tranching but no first loss credit enhancement from originator	5% in equity tranche or less if the equity tranche is less than 5%. The balance (10% - investment in equity tranche) pari-passu in other tranches issued by the SPV.
		iv)	Where securitisation involves credit tranching as well as the first loss credit enhancements by originators (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	i) If the first loss credit enhancement is more than 5% but less than 10%, then balance pari-passu in securities including equity tranche issued by the SPV.
				ii) If the first loss credit enhancement is less than 5%, then in equity tranche so that first loss plus equity tranche is equal to 5%. Balance paripassu in other tranches (excluding equity tranche) issued by the SPV so that the total retention is 10%.
Bullet repayment loans / receivables referred to in foot note 3 of para 1.1	10% of the book value of the loans being securitised	i)	Where securitisation involves neither credit tranching nor any first loss credit enhancement by originators	Investment in the securities issued by the SPV equal to 10% of the book value of the loans being securitised
		ii)	Where securitisation involves no credit tranching, but involves	The originator would be providing the required credit enhancement

		originators providing first loss credit enhancements e.g. off-balance sheet supports, cash collaterals, overcollateralisation etc.	If the first loss credit enhancement required is less than 10%, then the balance should be in the securities issued by the SPV.
		iii) Where securitisation involves credit tranching but no first loss credit enhancement from originator	10% in equity tranche. If equity tranche is less than 10%, then balance paripassu in remaining tranches.
		iv) Where securitisation involves credit tranching and first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, overcollateralisation etc.)	If the first loss credit enhancement is less than 10%, then balance in equity tranche. If balance is greater than equity tranche, then remaining pari-passu in other tranches.

- 1.3.2 MRR will have to be maintained by the entity which securitises the loans. In other words, it cannot be maintained by other entities which are treated as 'originator' in terms of para 5(vi) of the circular dated February 1, 2006 containing Guidelines on Securitisation of Standard Assets.
- 1.3.3 The MRR should represent the principal cash flows. Therefore, NBFCs' investment in the Interest Only Strip representing the Excess Interest Spread / Future Margin Income, whether or not subordinated, will not be counted towards the MRR.
- 1.3.4 The level of or selling the retained interest commitment by originators i.e., MRR should not be reduced either through hedging of credit risk. The MRR as a percentage of unamortised principal should be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR should not change during the life of securitisation.
- 1.3.5 For complying with the MRR under these guidelines NBFCs should ensure that proper documentation in accordance with law is made.

1.4 Limit on Total Retained Exposures

- 1.4.1 At present, total investment by the originator in the securities issued by the SPV through underwriting or otherwise is limited to 20% of the total securitised

instruments issued. It has been decided that the total exposure of NBFCs to the loans securitised in the following forms should not exceed 20% of the total securitised instruments issued :

- Investments in equity / subordinate / senior tranches of securities issued by the SPV including through underwriting commitments
- Credit enhancements including cash and other forms of collaterals including overcollateralisation, but excluding the credit enhancing interest only strip
- Liquidity support.

1.4.2 If an NBFC exceeds the above limit, the excess amount would be risk weighted at 667%⁵.

1.4.3 The 20% limit on exposures will not be deemed to have been breached if it is exceeded due to amortisation of securitisation instruments issued.

1.5 Booking of Profit Upfront

1.5.1 In terms of para 20.1 of circular DBOD.No.BP.BC.60/21.04.048/2005-06 dated February 1, 2006, any profit / premium arising on account of securitisation of loans should be amortised over the life of the securities issued or to be issued by the SPV. These instructions were inter alia intended to discourage 'originate-to-distribute' model. Now that these concerns are sought to be addressed to some extent by MRR, MHP and other measures being proposed in these guidelines, it has been decided to allow higher recognition of cash profits during a year based on amortisation of principal and losses incurred as well as specific provision requirements on the securitisation exposures as explained below :

The amount of profit received in cash may be held under an accounting head styled as "Cash Profit on Loan Transfer Transactions Pending Recognition" maintained on individual transaction basis. The amortisation of cash profit arising out of securitisation transaction will be done at the end of every financial year and calculated as under :

Profit to be amortised = $\text{Max}\{L, [(X*(Y/Z))], [(X/n)]\}$

X = amount of unamortised cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year

Y = amount of principal amortised during the year

Z = amount of unamortised principal at the beginning of the year

L = Loss⁶ (marked to market losses incurred on the portfolio + specific provisions, if any, made against the exposures to the particular securitisation transaction + direct write-off) excluding loss incurred on credit enhancing interest only strip⁷

n = residual maturity of the securitisation transaction

- 1.5.2 The above method of amortisation of profit can be applied to outstanding securitisation transactions as well. However, the method can be applied only with respect to the outstanding amortisable profit and un-amortised principal outstanding as on the date of issuance of this circular.
- 1.5.3 At times, the originating NBFCs retain contractual right to receive some of the interest amount due on the transferred assets. This interest receivable by the originating NBFC represents a liability of the SPV and its present value is capitalised by the originating NBFC as an Interest Only Strip (I / O Strip), which is an on-balance sheet asset. Normally, a NBFC would recognise an unrealised gain in its Profit and Loss account on capitalisation of future interest receivable by way of I / O Strip. However, consistent with the instructions contained in circular dated February 1, 2006 referred to above, NBFCs should not recognise the unrealised gains in Profit and Loss account; instead they should hold the unrealised profit under an accounting head styled as "Unrealised Gain on Loan Transfer Transactions". The balance in this account may be treated as a provision against potential losses incurred on the I / O Strip due to its serving as credit enhancement for the securitisation transaction⁸. The profit may be recognised in Profit and Loss Account only when Interest Only Strip is redeemed in cash. As NBFCs would not be booking gain on sale represented by I / O Strip upfront, it need not be deducted from Tier I capital. This method of accounting of Interest Only Strip can be applied to outstanding securitisation transactions as well.

1.6 Disclosures by the Originating NBFCs

1.6.1 *Disclosures to be made in Servicer / Investor / Trustee Report*

The originating NBFCs should disclose to investors the weighted average holding period of the assets securitised and the level of their MRR in the securitisation. The originating NBFCs should ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well-informed stress tests on the cash flows and collateral values supporting the underlying exposures. The disclosure by an originator of its fulfillment of the MHP and MRR should be made available publicly and should be appropriately documented; for instance, a reference to the retention commitment in the prospectus for securities issued under that securitisation programme would be considered appropriate. The disclosure should be made at origination of the transaction, and should be confirmed thereafter at a minimum half yearly (end-September and March), and at any point where the requirement is breached.

The above periodical disclosures should be made separately for each securitisation transaction, throughout its life, in the servicer report, investor

report, trustee report, or any similar document published. The aforesaid disclosures can be made in the format given in Appendix 1.

1.6.2 *Disclosures to be made by the Originator in Notes to Annual Accounts*

The Notes to Annual Accounts of the originating NBFCs should indicate the outstanding amount of securitised assets as per books of the SPVs sponsored by the NBFC and total amount of exposures retained by the NBFC as on the date of balance sheet to comply with the MRR. These figures should be based on the information duly certified by the SPV's auditors obtained by the originating NBFC from the SPV. These disclosures should be made in the format given in Appendix 2.

1.7 Loan Origination Standards

The originating NBFCs should apply the same sound and well-defined criteria for credit underwriting to exposures to be securitised as they apply to exposures to be held on their book. To this end, the same processes for approving and, where relevant, amending, renewing and monitoring of credits should be applied by the originators.

1.8 Treatment of Securitised Assets not Meeting the Requirements Stipulated above

All instructions contained in this paragraph will be applicable only to the new transactions unless explicitly stated otherwise. If an originating NBFC fails to meet the requirement laid down in the paragraphs 1.1 to 1.7 above, it will have to maintain capital for the securitised assets as if these were not securitised. This capital would be in addition to the capital which the NBFC is required to maintain on its other existing exposures to the securitisation transaction.

2. Requirements to be met by NBFCs other than originators having Securitisation exposure

2.1 Standards for Due Diligence

2.1.1 NBFCs can invest in or assume exposure to a securitisation position only if the originator (other NBFCs / FIs / banks) has explicitly disclosed to the credit institution that it has adhered to MHP and MRR stipulated in these guidelines and will adhere to MRR guidelines on an ongoing basis.

2.1.2 Before investing, and as appropriate thereafter, NBFCs should be able to demonstrate for each of their individual securitisation positions, that they have a comprehensive and thorough understanding of risk profile of their proposed / existing investments in securitised positions. NBFCs will also have to demonstrate that for making such an assessment they have implemented formal policies and procedures appropriate for analysing and recording the following :

- a) information disclosed by the originators regarding the MRR in the securitisation, on at least half yearly basis;
- b) the risk characteristics of the individual securitisation position including all

the structural features of the securitisation that can materially impact the performance of the investing NBFC's securitisation position (i.e., the seniority of the tranche, thickness of the subordinate tranches, its sensitivity to prepayment risk and credit enhancement resets, structure of repayment waterfalls, waterfall related triggers, the position of the tranche in sequential repayment of tranches(time-tranching), liquidity enhancements, availability of credit enhancements in the case of liquidity facilities, deal-specific definition of default, etc.);

- c) the risk characteristics of the exposures underlying the securitisation position (i.e., the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicity of the economic activities in which the underlying borrowers are engaged, etc.);
- d) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier securitisations, and fairness in selecting exposures for securitisation;
- e) loss experience in earlier securitisations of the originators in the relevant exposure classes underlying the securitisation position, incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;
- f) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting the securitised exposures; and
- g) where applicable, the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator to ensure the independence of the valuer.

2.1.3 When the securitised instruments are subsequently purchased in the secondary market by an NBFC, it should, at that point in time, ensure that the originator has explicitly disclosed that it will retain a position that meets the MRR.

2.2 Stress Testing

NBFCs should regularly perform their own stress tests appropriate to their securitisation positions. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn, rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures, fall in rating of the credit enhancers resulting in fall in market value of securities (Asset Backed Securities / Mortgage Backed Securities) and drying of liquidity of the securities resulting in higher

prudent valuation adjustments.

2.3 Credit Monitoring

NBFCs need to monitor on an ongoing basis and in a timely manner, performance information on the exposures underlying their securitisation positions and take appropriate action, if any, required. Action may include modification to exposure ceilings to certain type of asset class underlying securitisation transaction, modification to ceilings applicable to originators etc. For this purpose, NBFCs should establish formal procedures commensurate with the risk profile of their exposures in securitised positions as stipulated in para 2.1.2. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60, 90, 120 and 180 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis. NBFCs may inter alia make use of the disclosures made by the originators in the form given in Appendix 1 to monitor the securitisation exposures.

2.4 Treatment of Exposures not Meeting the Requirements Stipulated above

The investing NBFCs will assign a risk weight of 667% to the securitisation exposures where the requirements in the paragraphs 2.1 to 2.3 above are not met. While NBFCs should make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.3, the higher risk weight of 667% will be applicable with effect from October 01, 2012. NBFCs should put in place necessary systems and procedures to implement the requirements in paragraphs 2.1 to 2.3 before October 31, 2012.

Section B

Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities

1. Requirements to be met by the Originating NBFCs

1.1 Assets Eligible for Transfer⁹

1.1.1 Under these guidelines, NBFCs can transfer a single standard asset or a part of such asset or a portfolio of such assets to financial entities through an assignment deed with the exception of the following :

- i) Revolving credit facilities (e.g., Credit Card receivables)
- ii) Assets purchased from other entities
- iii) Assets with bullet repayment of both principal and interest¹⁰

1.1.2 However, these guidelines do not apply to :

- i) Transfer of loan accounts of borrowers by an NBFC to other NBFCs / FIs / banks and vice versa, at the request / instance of borrower;
- ii) Trading in bonds;
- iii) Sale of entire portfolio of assets consequent upon a decision to exit the line of business completely. Such a decision should have the approval of Board of Directors of the NBFC;
- iv) Consortium and syndication arrangements.
- v) Any other arrangement / transactions, specifically exempted by the Reserve Bank of India.

1.2 Minimum Holding Period (MHP)

Same as in para 1.2 of Section A.

1.3 Minimum Retention Requirement (MRR)

1.3.1 The originating NBFCs should adhere to the MRR detailed in the Table below while transferring assets to other financial entities :

Type of asset	MRR
Assets with original maturity of 24 months or less	Retention of right to receive 5% of the cash flows from the assets transferred on pari-passu basis
i) Assets with original maturity of above 24 months; and	Retention of right to receive 10% of the cash flows from the assets transferred on pari-passu basis.
ii) Loans referred to in foot note 10 of para 1.1 of Section B.	

- 1.3.2 In the case of partial sale of assets, if the portion retained by the seller is more than the MRR required as per para 1.3.1 above, then out of the portion retained by the seller, the portion equivalent to 5% of the portion sold or 10% of the portion sold, as the case may be, would be treated as MRR. However, all exposures retained by the selling NBFC including MRR should rank pari-passu with the sold portion of the asset.
- 1.3.3 NBFCs should not offer credit enhancements in any form and liquidity facilities in the case of loan transfers through direct assignment of cash flows, as the investors in such cases are generally the institutional investors who should have the necessary expertise to appraise and assume the exposure after carrying out the required due diligence. NBFCs should also not retain any exposures through investment in the Interest Only Strip representing the Excess Interest Spread / Future Margin Income from the loans transferred. However, the originating NBFCs will have to satisfy the MRR requirements stipulated in para 1.3.1 above. NBFCs' retention of partial interest in the loans transferred to comply with the MRR indicated in para 1.3.1 should be supported by a legally valid documentation. At a minimum, a legal opinion regarding the following should also be kept on record by the originator :
- a) legal validity of amount of interest retained by the originator;
 - b) such arrangement not interfering with assignee's rights and rewards associated with the loans to the extent transferred to it; and
 - c) the originator not retaining any risk and rewards associated with the loans to the extent transferred to the assignee.
- 1.3.4 MRR will have to be maintained by the entity which sells the loans. In other words, it cannot be maintained by other entities which are treated as 'originator' in terms of para 5(vi) of the circular dated February 1, 2006 containing guidelines on securitisation of standard assets.
- 1.3.5 The level of commitment by originators i.e., MRR should not be reduced either through hedging of credit risk or selling the retained interest. The MRR as a percentage of unamortised principal should be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR should not change during the life of transaction.
- 1.3.6 For complying with the MRR under these guidelines, NBFCs should ensure that proper documentation in accordance with law is made.

1.4 Booking of Profit Upfront

- 1.4.1 The amount of profit in cash on direct sale of loans may be held under an accounting head styled as "Cash Profit on Loan Transfer Transactions Pending Recognition" maintained on individual transaction basis and amortised over the life of the transaction. The amortisation of cash profit arising out of loan

assignment transaction will be done at the end of every financial year and calculated as under :

Profit to be amortised = Max {L, [(X*(Y/Z)], [(X/n)]}

X = amount of unamortised cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year

Y = amount of principal amortised during the year

Z = amount of unamortised principal at the beginning of the year

L = Loss (specific provisions to be made on retained exposures for credit losses plus direct write-off plus any other losses, if any)¹¹ incurred on the portfolio

n = residual maturity of the securitisation transaction

1.4.2 **Accounting, Asset Classification and provisioning norms for MRR**

The asset classification and provisioning rules in respect of the exposure representing the MRR would be as under :

- a) The originating NBFC may maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the consolidated amount receivable in amortisation of the MRR and its periodicity should be clearly established and the overdue status of the MRR should be determined with reference to repayment of such amount. Alternatively, the originating NBFC may continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.
- b) In the case of transfer of a pool of loans other than retail loans, the originator should maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.
- c) If the originating NBFC acts as a servicing agent of the assignee bank / NBFC for the loans transferred, it would know the overdue status of loans transferred which should form the basis of classification of the entire MRR / individual loans representing MRR as NPA in the books of the originating NBFC, depending upon the method of accounting followed as explained in para (a) and (b) above.

1.5 **Disclosures by the Originating NBFCs**

Same as in para 1.6 of Section A.

1.6 **Loan Origination Standards**

Same as in para 1.7 of Section A.

1.7 Treatment of Assets sold not Meeting the Requirements stipulated above

All instructions contained in this paragraph except in para 1.4.2 will be applicable only to the new transactions undertaken on or after the date of this circular. Instructions in para 1.4.2 will be applicable to both existing and new transactions¹². If an originating NBFC fails to meet the requirement laid down in paragraphs 1.1 to 1.6 above, it will have to maintain capital for the assets sold as if these were still on the books of the NBFC (originating NBFC).

2. Requirements to be met by the Purchasing NBFCs

2.1 Restrictions on Purchase of loans

NBFCs can purchase loans from other NBFCs / FIs / banks in India only if the seller has explicitly disclosed to the purchasing NBFCs that it will adhere to the MRR indicated in para 1.3 on an ongoing basis. In addition, for domestic transactions, purchasing NBFCs should also ensure that the originating institution has strictly adhered to the MHP criteria prescribed in the guidelines in respect of loans purchased by them.

2.2 Standards for Due Diligence

2.2.1 NBFCs should have the necessary expertise and resources in terms of skilled manpower and systems to carry out the due diligence of the loans / portfolios of loans before purchasing them. In this regard the purchasing NBFCs should adhere to the following guidelines :

- a) NBFCs with the approval of their Board of Directors, should formulate policies regarding the process of due diligence which needs to be exercised by the NBFCs' own officers to satisfy about the Know Your Customer requirements and credit quality of the underlying assets. Such policies should inter alia lay down the methodology to evaluate credit quality of underlying loans, the information requirements etc.
- b) The due diligence of the purchased loans cannot be outsourced by the NBFC and should be carried out by its own officers with the same rigour as would have been applied while sanctioning new loans by the NBFC.
- c) If an NBFC wishes to outsource certain activities like collection of information and documents etc., then NBFCs would continue to retain full responsibility in regard to selection of loans for purchase and compliance with Know Your Customer requirements.

2.2.2 Before purchasing individual loans or portfolio of loans, and as appropriate thereafter, NBFCs should be able to demonstrate that they have a comprehensive and thorough understanding of and have implemented formal policies and procedures commensurate with the risk profile of the loans purchased analysing and recording :

- a) information disclosed by the originators regarding the MRR, on an ongoing basis;
- b) the risk characteristics of the exposures constituting the portfolio purchased (i.e., the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicity of the economic activities in which the underlying borrowers are engaged, etc.);
- c) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier transfer of portfolios and fairness in selecting exposures for transfer;
- d) loss experience in earlier transfer of loans / portfolios by the originators in the relevant exposure classes underlying and incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;
- e) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the assigned exposures and, where applicable, on the quality of the collateral supporting the loans transferred; and
- f) where applicable, the methodologies and concepts on which the valuation of loans transferred is based and the policies adopted by the originator to ensure the independence of the valuer.

2.3 Stress Testing

NBFCs should regularly perform their own stress tests appropriate to the portfolios of loans purchased by them. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn and rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures.

2.4 Credit monitoring

2.4.1 The purchasing NBFCs need to monitor on an ongoing basis and in timely manner performance information on the loans purchased and take appropriate action required, if any. Action may include modification to exposure ceilings to certain type of asset classes, modification to ceilings applicable to originators etc. For this purpose, NBFCs should establish formal procedures appropriate and commensurate with the risk profile of the purchased loans. Such procedures should be as rigorous as that followed by the NBFC for portfolios of similar loans directly originated by it. In particular, such procedures must facilitate timely

detection of signs of weaknesses in individual accounts and identification of non-performing borrowers as per RBI guidelines as soon as loans are 180 days past due. The information collected should include the exposure type, the percentage of loans more than 30, 60, 90, 120 and 180 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis. Such information, if not collected directly by the NBFC and obtained from the servicing agent, should be certified by the authorized officials of the servicing agent. NBFCs may inter alia make use of the disclosures made by the originators in the form given in Appendix 1 to monitor the exposures.

- 2.4.2 Depending upon the size of the portfolio, credit monitoring procedures may include verification of the information submitted by the bank / NBFC's concurrent and internal auditors. The servicing agreement should provide for such verifications by the auditors of the purchasing NBFC. All relevant information and audit reports should be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing NBFCs.

2.5 True Sale Criteria¹³

- 2.5.1 The 'sale' (this term would hereinafter include direct sale, assignment and any other form of transfer of asset, but does not include bills rediscounted, outright transfer of loan accounts to other financial entities at the instance of the borrower and sale of bonds other than those in the nature of advance) should result in immediate legal separation of the 'selling NBFC'¹⁴ (this term hereinafter would include direct selling NBFC, assigning NBFC and the NBFC transferring assets through any other mode), from the assets¹⁵ which are sold. The assets should stand completely isolated from the selling NBFC, after its transfer to the buyer, i.e., put beyond the selling NBFC's as well as its creditors' reach, even in the event of bankruptcy of the selling / assigning / transferring NBFC.
- 2.5.2 The selling NBFC should effectively transfer all risks / rewards and rights / obligations pertaining to the asset and shall not hold any beneficial interest in the asset after its sale except those specifically permitted under these guidelines. The buyer should have the unfettered right to pledge, sell, transfer or exchange or otherwise dispose of the assets free of any restraining condition. The selling NBFC shall not have any economic interest in the assets after its sale and the buyer shall have no recourse to the selling NBFC for any expenses or losses except those specifically permitted under these guidelines.
- 2.5.3 There shall be no obligation on the selling NBFC to re-purchase or fund the repayment of the asset or any part of it or substitute assets held by the buyer or provide additional assets to the buyer at any time except those arising out of breach of warranties or representations made at the time of sale. The selling

NBFC should be able to demonstrate that a notice to this effect has been given to the buyer and that the buyer has acknowledged the absence of such obligation.

- 2.5.4 The selling NBFC should be able to demonstrate that it has taken all reasonable precautions to ensure that it is not obliged, nor will feel impelled, to support any losses suffered by the buyer.
- 2.5.5 The sale shall be only on cash basis and the consideration shall be received not later than at the time of transfer of assets. The sale consideration should be market-based and arrived at in a transparent manner on an arm's length basis.
- 2.5.6 If the seller of loans acts as the servicing agent for the loans, it would not detract from the 'true sale' nature of the transaction, provided such service obligations do not entail any residual credit risk on the sold assets or any additional liability for them beyond the contractual performance obligations in respect of such services.
- 2.5.7 An opinion from the selling NBFC's Legal Counsel should be kept on record signifying that : (i) all rights, titles, interests and benefits in the assets have been transferred to the buyer; (ii) selling NBFC is not liable to the buyer in any way with regard to these assets other than the servicing obligations as indicated in para 2.5.6 above; and (iii) creditors of the selling NBFC do not have any right in any way with regard to these assets even in case of bankruptcy of the selling NBFC.
- 2.5.8 Any re-schedulement, restructuring or re-negotiation of the terms of the underlying agreement/s effected after the transfer of assets to the buyer, shall be binding on the buyer and not on the selling NBFC except to the extent of MRR.
- 2.5.9 The transfer of assets from selling NBFC must not contravene the terms and conditions of any underlying agreement governing the assets and all necessary consents from obligors (including from third parties, where necessary) should have been obtained.
- 2.5.10 In case the selling NBFC also provides servicing of assets after the sale under a separate servicing agreement for fee, and the payments / repayments from the borrowers are routed through it, it shall be under no obligation to remit funds to the buyer unless and until these are received from the borrowers.

2.6 Representations and Warranties

An originator that sells assets to other financial entities may make representations and warranties concerning those assets. Where the following conditions are met the seller will not be required to hold capital against such representations and warranties.

- a) Any representation or warranty is provided only by way of a formal written agreement.
- b) The seller undertakes appropriate due diligence before providing or accepting any representation or warranty.

- c) The representation or warranty refers to an existing state of facts that is capable of being verified by the seller at the time the assets are sold.
- d) The representation or warranty is not open-ended and, in particular, does not relate to the future creditworthiness of the loans / underlying borrowers.
- e) The exercise of a representation or warranty, requiring an originator to replace asset (or any parts of them) sold, on grounds covered in the representation or warranty, must be :
 - * undertaken within 120 days of the transfer of assets; and
 - * conducted on the same terms and conditions as the original sale.
- f) A seller that is required to pay damages for breach of representation or warranty can do so provided the agreement to pay damages meets the following conditions :
 - * the onus of proof for breach of representation or warranty remains at all times with the party so alleging;
 - * the party alleging the breach serves a written Notice of Claim on the seller, specifying the basis for the claim; and
 - * damages are limited to losses directly incurred as a result of the breach
- g) A seller should notify RBI (Department of Non-Banking Supervision) of all instance where it has agreed to replace assets sold to another financial entity or pay damages arising out of any representation or warranty.

2.7 Re-purchase of Assets

In order to limit the extent of effective control of transferred assets by the seller in the case of direct assignment transactions, NBFCs should not have any re-purchase agreement including through "clean-up calls" on the transferred assets.

2.8 Applicability of Capital Adequacy and other Prudential Norms

2.8.1 The capital adequacy treatment for direct purchase of loans will be as per the rules applicable to loans directly originated by the NBFCs. Investment in tranches of securitized loans will attract capital adequacy and other prudential norms as applicable to securitization transactions. NBFCs may, if they so desire, have the pools of loans rated before purchasing so as to have a third party view of the credit quality of the pool in addition to their own due diligence. However, such rating cannot substitute for the due diligence that the purchasing NBFC is required to perform in terms of para 2.2 of this Section.

2.8.2 In purchase of pools of both retail and non-retail loans, income recognition, asset classification, provisioning and exposure norms for the purchasing NBFC will be applicable based on individual obligors and not based on portfolio. NBFCs should not apply the asset classification, income recognition and provisioning

norms at portfolio level, as such treatment is likely to weaken the credit supervision due to its inability to detect and address weaknesses in individual accounts in a timely manner. If the purchasing NBFC is not maintaining the individual obligor-wise accounts for the portfolio of loans purchased, it should have an alternative mechanism to ensure application of prudential norms on individual obligor basis, especially the classification of the amounts corresponding to the obligors which need to be treated as NPAs as per existing prudential norms. One such mechanism could be to seek monthly statements containing account-wise details from the servicing agent to facilitate classification of the portfolio into different asset classification categories. Such details should be certified by the authorized officials of the servicing agent. NBFC's concurrent auditors, internal auditors and statutory auditors should also conduct checks of these portfolios with reference to the basic records maintained by the servicing agent. The servicing agreement should provide for such verifications by the auditors of the purchasing NBFC. All relevant information and audit reports should be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing NBFCs.

2.8.3 The purchased loans will be carried at acquisition cost unless it is more than the face value, in which case the premium paid should be amortised based on straight line method or effective interest rate method, as considered appropriate by the individual NBFCs. The outstanding / unamortised premium need not be deducted from capital. The discount / premium on the purchased loans can be accounted for on portfolio basis or allocated to individual exposures proportionately.

2.9 Treatment of Exposures not Meeting the Requirements Stipulated Above

The investing NBFCs will assign a risk weight of 667% to the assignment exposures where the requirements in paragraphs 2.1 to 2.8 above are not met. While NBFCs should make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.4, the higher risk weight of 667% for non-compliance of these paragraphs will be applicable with effect from October 01, 2012. NBFCs should put in place necessary systems and procedures to implement the requirements in paragraphs 2.1 to 2.4 before October 31, 2012.

Section C

Securitisation Activities / Exposures not permitted

1. At present, NBFCs in India are not permitted to undertake the securitisation activities or assume securitisation exposures as mentioned below.

1.1 Re-securitisation of Assets

A re-securitisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation exposure. In addition, an exposure to one or more resecuritisation exposures is a re-securitisation exposure. This definition of resecuritised exposure will capture collateralised debt obligations (CDOs) of asset backed securities, including, for example, a CDO backed by residential mortgage backed securities (RMBS).

1.2 Synthetic Securitisations

A synthetic securitisation is a structure with at least two different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g. credit-linked notes) or unfunded (e.g. credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors' potential risk is dependent upon the performance of the underlying pool.

1.3 Securitisation with Revolving Structures (with or without early amortisation features)

These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities). Typically, revolving structures will have nonamortising assets such as credit card receivables, trade receivables, dealer floorplan loans and some leases that would support non-amortising structures, unless these are designed to include early amortisation features. Early amortisation means repayment of securities before their normal contractual maturity. At the time of early amortisation there are three potential amortisation mechanics : (i) Controlled amortisation; (ii) Rapid or non-controlled amortisation; and (iii) Controlled followed by a subsequent (after the completion of the controlled period) non-controlled amortisation phase.

2. The appropriateness and suitability of transactions prohibited in the above guidelines would be revisited in due course.

Appendix - 1

**Format for Disclosure Requirements in offer documents,
servicer report, investor report, etc.¹⁶**

Name / Identification No. of securitisation transaction¹⁷

	Nature of disclosure	Details	Amount / percentage / years		
1.	Maturity characteristics of the underlying assets (on the date of disclosure)	i)	Weighted average maturity of the underlying assets (in years)		
		ii)	Maturity-wise distribution of underlying assets		
			a)	Percentage of assets maturing within one year	
			b)	Percentage of assets maturing within one to three year	
			c)	Percentage of assets maturing within three to five years	
			d)	Percentage of assets maturing after five years	
2	Minimum Holding Period (MHP) of securitised assets	i)	MHP required as per RBI guidelines (years / months)		
		ii)	a)	Weighted average holding period of securitised assets at the time of securitisation (years / months)	
			b)	Minimum and maximum holding period of the securitised assets	
3	Minimum Retention Requirement (MRR) on the date of disclosure	i)	MRR as per RBI guidelines as a percentage of book value of assets securitised and outstanding on the date of disclosure		
		ii)	Actual retention as a percentage of book value of assets securitised and outstanding on the date of disclosure		
		iii)	Types of retained exposure constituting MRR in percentage of book value of assets securitised		

			(percentage of book value of assets securitised and outstanding on the date of disclosure) ¹⁸	
		a)	Credit Enhancement (i.e. whether investment in equity / subordinate tranches, first / second loss guarantees, cash collateral, overcollateralisation)	
		b)	Investment in senior tranches	
		c)	Liquidity support	
		d)	Any other (pl. specify)	
		iv)	Breaches, if any, and reasons there for	
4	Credit quality of the underlying loans	i)	Distribution of overdue loans	
		a)	Percentage of loans overdue up to 30 days	
		b)	Percentage of loans overdue between 31-60 days	
		c)	Percentage of loans overdue between 61-90 days	
		d)	Percentage of loans overdue between 90 and 120 days	
		e)	Percentage of loans overdue between 120 and 180 days	
		f)	Percentage of loans overdue more than 180 days	
		ii)	Details of tangible security available for the portfolio of underlying loans (vehicles, mortgages, etc.)	
		a)	Security 1(to be named) (% loans covered)	
		b)	Security 2.....	
		c)	Security 'n'	
		iii)	Extent of security cover available for the underlying loans	
		a)	Percentage of loans fully secured included in the pool (%)	
		b)	Percentage of partly secured	

		loans included in the pool (%)	
	c)	Percentage of unsecured loans included in the pool (%)	
	iv)	Rating-wise distribution of underlying loans(if these loans are rated)	
	a)	Internal grade of the NBFC / external grade (highest quality internal grade may be indicated as 1)	
		1/AAA or equivalent	
		2	
		3	
		4.....	
		N	
	b)	Weighted average rating of the pool	
	v)	Default rates of similar portfolios observed in the past	
	a)	Average default rate per annum during last five years	
	b)	Average default rate per annum during last year	
	vi)	Upgradation / Recovery / Loss Rates of similar portfolios	
	a)	Percentage of NPAs upgraded (average of the last five years)	
	b)	Amount written-off as a percentage of NPAs in the beginning of the year (average of last five years)	
	c)	Amount recovered during the year as a percentage of incremental NPAs during the year (average of last five year)	
	vii)	Frequency distribution of LTV ratios, in case of housing loans and commercial real estate loans)	
	a)	Percentage of loans with LTV ratio less than 60%	

		b)	Percentage of loans with LTV ratio between 60-75%	
		c)	Percentage of loans with LTV ratio greater than 75%	
		d)	Weighted average LTV ratio of the underlying loans(%)	
5	Other characteristics of the loan pool	i)	Industry-wise breakup of the loans in case of mixed pools (%)	
			Industry 1	
			Industry 2	
			Industry 3....	
			Industry n	
		ii)	Geographical distribution of loan pools (statewise) (%)	
			State 1	
			State 2	
			State 3	
			State 4	

Appendix 2

Disclosures to be made in Notes to Accounts by NBFCs

S. No.	Particulars	No. / Amount in Rs. crore
1.	No of SPVs sponsored by the NBFC for securitisation transactions ¹⁹	
2.	Total amount of securitised assets as per books of the SPVs sponsored by the NBFC	
3.	Total amount of exposures retained by the NBFC to comply with MRR as on the date of balance sheet	
	a) Off-balance sheet exposures	
	* First loss	
	* Others	
	b) On-balance sheet exposures	
	* First loss	
	* Others	
4	Amount of exposures to securitisation transactions other than MRR	
	a) Off-balance sheet exposures	
	i) Exposure to own securitisations	
	* First loss	
	* loss	
	ii) Exposure to third party securitisations	
	* First loss	
	* Others	
	b) On-balance sheet exposures	
	i) Exposure to own securitisations	
	* First loss	
	* Others	
	ii) Exposure to third party securitisations	
	* First loss	
	* Others	

- 1 The single asset securitisations do not involve any credit tranching and redistribution of risk, and therefore, are not consistent with the economic objectives of securitisation.
- 2 In these guidelines the term loans / assets have been used to refer to loans, advances and bonds which are in the nature of advances
- 3 Trade receivables with tenor up to 12 months discounted / purchased by NBFCs from their borrowers will be eligible for securitisation. However, only those loans / receivables will be eligible for securitisation where a drawee of the bill has fully repaid the entire amount of last two loans / receivables within 180 days of the due date.
- 4 Where the repayment is at more than quarterly intervals, loans can be securitised after repayment of at-least two instalments.
- 5 The minimum CRAR requirement for NBFCs is 15%. Hence risk weight has been capped at 667% so as to ensure that the capital charge does not exceed the exposure value.
- 6 The losses, including marked-to-market losses, incurred by NBFCs, specific provisions, if any, and direct write-offs to be made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip) should be charged to Profit and Loss account. However, the amortisation formula would ensure that these debits to Profit and Loss account are offset to the extent there is balance in "Cash Profit on Loan Transfer Transactions Pending Recognition Account". NBFCs should also hold capital against securitisation exposures in terms of extant guidelines of RBI without taking into account balance in "Cash Profit on Loan Transfer Transactions Pending Recognition Account".
- 7 For accounting of losses in respect of credit enhancing interest only strip, please see para 1.5.3.
- 8 The I / O Strips may be amortising or non-amortising. In the case of amortising I / O strips, an NBFC would periodically receive in cash, only the amount which is left after absorbing losses, if any, supported by the I / O strip. On receipt, this amount may be credited to Profit and Loss account and the amount equivalent to the amortisation due may be written-off against the "Unrealised Gain on Loan Transfer Transactions" A/c bringing down the book value of the I / O strip in the NBFC's books. In the case of a non-amortising I / O Strip, as and when the NBFC receives intimation of charging-off of losses by the SPV against the I / O strip, it may write-off equivalent amount against "Unrealised Gain on Loan Transfer Transactions" A/c and bring down the book value of the I / O strip in the NBFC's books. The amount received in final redemption value of the I / O Strip received in cash may be taken to Profit and Loss account.
- 9 In these guidelines, transfer would mean transfer of assets through direct

sale, assignment and any other form of transfer of assets. The generic term used for transfers would be sale and purchase.

- 10 Trade receivables with tenor up to 12 months discounted / purchased by NBFCs from their borrowers will be eligible for direct transfer through assignment. However, only those loans / receivables will be eligible for such transfer where a drawee of the bill has fully repaid the entire amount of last two loans / receivables within 180 days of the due date.
- 11 The specific provisions to be made as well as direct write-offs and other losses, if any, on the retained exposures should be charged to Profit and Loss account. In addition NBFCs should hold capital against the exposure retained as part of MRR as required in terms of extant guidelines of RBI without taking into account balance in "Cash Profit on Loan Transfer Transactions Pending Recognition" account. NBFCs will also be required to separately maintain 'standard asset' provisions on MRR as per existing instructions which should not be charged to the "Cash Profit on Loan Transfer Transactions Pending Recognition" A/c.
- 12 For existing transactions para 1.4.2 would apply to credit enhancements or any other type of retained exposures.
- 13 For true sale criteria for securitisation transaction, please refer to Guidelines on Securitisation of Standard Assets DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 01, 2006 as amended from time to time.
- 14 In this para, the term 'selling NBFC' will include other financial entities selling loans to NBFCs
- 15 In case of sale of a part of an asset, true sale criteria will apply to the part of the asset sold
- 16 This appendix will also be applicable to direct transfer of loans. For that purpose the words 'securitised assets'/'asset securitised' may be interpreted to mean 'loans directly transferred / assigned'. NBFCs should disclose / report the information in respect of securitisation and direct transfers separately.
- 17 These disclosures should be made separately for each securitisation transaction throughout the life of the transaction
- 18 This item is not relevant for direct transfer of loans, as there will be no credit enhancement, liquidity support and tranching.
- 19 Only the SPVs relating to outstanding securitisation transactions may be reported here

An indicative list of basic documents/information to be furnished along with the application. All documents/information is to be submitted in duplicate.

Sr. No	Requirements to be complied with and documents to be submitted to RBI by Companies for obtaining certificate and Registration from RBI as NBFC	Page no. in the file
1.	Minimum NOF requirement Rs. 200 lakh.	
2.	Application to be submitted in two separate sets tied up properly in two separate files and properly page numbered.	
3.	Identification particulars (Annex I).	
4.	Statement on prudential norms (Annex II).	
5.	Information about the management (Annex III)	
6.	Details of change in the management of the company during last financial year till date if any and reasons thereof.	
7.	Certified copies of Certificate of Incorporation and Certificate of Commencement of Business in case of public limited companies.	
8.	Certified copies of up-to-date Memorandum and Articles of Association of the company.	
9.	Details of clauses in the memorandum relating to financial business.	
10	Details of changes in the Memorandum and Articles of Association duly certified.	
11.	Copy of PAN/CIN allotted to the company.	
12.	Annex II to be submitted duly signed by the director/Authorized signatory and certified by the statutory auditors.	
13.	Annex III (directors' profile) to be separately filled up and signed by each director. Care should be taken to give details of bankers in respect of firms/companies/entities in which directors have substantial interest.	
14.	In case the directors are associated with or without substantial interest (indicate %of holding in each company firm) in other companies, indicate clearly the activity of the companies and details of their regulators if any.	
15.	Certificate from the respective NBFC/s where the Directors have gained NBFC experience.	
16	Copy of PAN and DIN allotted to the Directors.	
17	CIBIL Data pertaining to Directors of the company	
18	Financial Statements of the last 2 years of Unincorporated Bodies,if any,in the group where the directors may be holding directorship with/without substantial interest.	
19	Certificate of compliance with section 45S of Chapter IIIC of the RBI Act, 1934 regarding unincorporated bodies with which director/s of the company are associated.	
20	Whether any prohibitory order was issued in the past to the company or any other NBFC/RNBC with which the directors/promoters etc. were associated? If details thereof.	

21	Whether the company or any of its directors was/is involved in any criminal case, including under section 138(1) of the Negotiable Instruments Act? If yes, details thereof.	
22	Board Resolution specifically approving the submission of the application and its contents and authorising signatory.	
23	Board Resolution to the effect that the company has not accepted any public deposit, in the past (specify period)/does not hold any public deposit as on the date and will not accept the same in future without the prior approval of Reserve Bank of India in writing.	
24	Board resolution stating that the company is not carrying on any NBFC activity/stopped NBFC activity and will not carry on/commence the same before getting registration from RBI.	
25	Certified copy of Board resolution for formulation of "Fair Practices Code"	
26	Statutory Auditors Certificate certifying that the company is/does not accept/is not holding Public Deposit.	
27	Statutory Auditors Certificate certifying that the company is not carrying on any NBFC activity.	
28	Statutory Auditors Certificate certifying net owned fund as on date of the application.	
29	Details of Authorised Share Capital and latest shareholding pattern of the company including the percentages. Documentary evidence for change in shareholding pattern,if undergone. If there are any NBFC corporate share holders, certificates from their statutory auditors regarding the adequacy of statutory NOF post investment. Also, provide details about the line of activity of other corporate stake holders.	
30	Copy of Fixed Deposit receipt & bankers certificate of no lien indicating balances in support of NOF	
31	Details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies.	
32	Details of the bank balances/bank accounts/complete postal address of the branch/bank, loan/credit facilities etc. availed.	
33	Details of unsecured loans if any, raised by the company from others (including the directors) during the year and if these fall in the exempted category of Public deposits certified by the Auditor.	
34	A certificate of Chartered Accountant regarding details of group/associate/subsidiary/holding/related companies is submitted. <i>(‘Companies in the group’ have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)-2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.)</i> Details should include names of the company, its activity, whether it is an NBFC or have other regulators like SEBI/IRDA/FMC/NHB/Foreign Regulators. If they are unregulated give the details of their activities,	

	principal banker's name, address, account no. Whether the names of these companies are appearing in the balance sheet of the applicant company. If not, indicate why they are not appearing. Whether overseas group companies were established under general permission route or under approval from appropriate authority if any. If there are other NBFCs in the group, justification of having another NBFC.	
35	Brief background note on the activities of the company during the last three years and the reasons for applying for NBFC registration.	
36	Whether the company has applied to RBI in the past for registration, if rejected, give full details. If not applied to RBI earlier, whether the company was doing NBF activities without CoR. If yes, indicate reasons for same. Whether they have completely stopped NBF activities now and whether that has been certified by their auditor. Also, submit a letter seeking to be condoned for violation of Sec 45 IA if the company had conducted NBF business detailing the circumstances.	
37	Last three years Audited balance sheet and Profit & Loss account along with directors & auditors report or for such shorter period as are available (for companies already in existence).	
38	Business plan of the company for the next three years giving details of its (a) thrust of business; (b) market segment; and (c) projected balance sheets, Cash flow statement, asset/income pattern statement without any element of public deposits.	
39	Source of the startup capital of the company substantiated with documentary evidence. Provide Self attested Bank Statement/IT returns etc.	
40	Details of mergers and acquisition with/of other companies if any together with supporting documents.	
41	Is the company engaged in any capital market activity? If so, whether there has been any non-compliance with SEBI Regulations? (Statement to be certified by Auditors).	
42	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.	
43	<p>If there is FDI in the company, its percentage (submit FIRC in support thereof) and whether it fulfills the minimum capitalization norms or not (also submit FC_GPRs).</p> <p>(i) Has the FDI been brought in with FIPB approval (Copy of approval to be submitted)?</p> <p>(ii) Is the foreign entity contributing the FDI subject to supervision in its home country (if yes, name, address and email id of the regulator).</p> <p>(iii) If not, mention legal status, viz, statutes under which it was established, its statutory obligations, procedures under which it was established, whether listed on stock exchange etc.</p> <p>(iv) The particulars of approval of Foreign Exchange Department (FED) if any obtained/copies of Foreign Inward Remittance Certificate in r/o Foreign Direct Investment if any, received by the applicant company are furnished.</p> <p>(v) Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the</p>	

	home country or elsewhere, if any. (v) If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.	
44	Declaration by the company to own electronic infrastructure and its capability regarding electronic submission of data through the internet as and when required by Reserve Bank of India. Email id of the company should also be provided.	
45	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"	

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can,if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC.

(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the original CoR application may be returned to the company for resubmission afresh with the required information/documents.

Checklist for NBFC-MFI- New Companies

Name of the applicant Company :

Name of the Regional Office :

	Items to be Checked	Confirm	Page No1
1	Is the Application of the Company duly stamped		
2	Is the Application accompanied by the following :		
a	Annexure I Is the Annexure duly signed by the Board authorized Director of the Company under company's stamp? Board Resolution to the effect that the company will be a member of at least one Credit Information Bureau/Company and will be a member of at least one SRO.		
b	Annexure II duly certified by the Auditor. Are the particulars/information furnished in Annexure II based on figures of latest annual audited balance sheet. (For companies incorporated after March 31 of the particular year in which the application is being made, information being furnished should be with reference to a date not earlier than 30 days of date of application.		
c	Annexure III as additional information for each of the Directors Are the DIN and PAN Nos indicated. Has the CIBIL data for all the directors submitted if company is already member of Credit Information Bureau If there are any foreign nationals as Directors, are the equivalent of PAN No issued by the authorities of the country of residence such as Social Security No., Passport No. and overseas bankers' report on them furnished? Do the names and addresses on such documents tally with DIN allotment letter. If not, are the reasons for variation provided? Or are the claims of genuineness supported by a magistrate's certificate. Are the current and past directorships held by the Directors and also the names and activities of the companies/firms where they are holding substantial interest (indicate percentage exceeding 10%) mentioned in each of the Annexure III. Are the names of the regulators (RBI, SEBI, IRDA, PFRDA, NHB or any other foreign regulator) of the entities in which the Directors hold directorships mentioned? If yes, please provide the registration details. Are the entities unregulated? If so what is the nature of their activities? Financial Statements of Unincorporated Bodies, if any, in the group where the directors may be holding directorship with/without substantial interest of the last 2 years.		
3	Are any of the companies indicated against Item No. 15 of Annexure III, an NBFC registered with the Reserve Bank,? If yes, please provide the registration details.		
4	Has the applicant company changed its name earlier? If yes are the earlier held names and dates of change together with the		

	names of Chief Executive Officer and Chairman at the time of change of name furnished? Has the applicant company furnished the reasoning for the change of name?		
5	Details of change in the management of the company during last financial year till date if any and reasons thereof.		
6	Has the applicant company ever defaulted in timely repayment of deposits and payment of interest? If yes, have they provided a list of all such pending cases and the action taken in respect of each case?		
7	Does the applicant company have any cases pending in any court including consumer forums? If yes, have they provided a list of such pending cases, including those pertaining to its deposit acceptance activities, if any?		
8	Are the certified and up-to date copy of the Memorandum of Association (MOA) and Articles of Association of the company submitted? Details of changes in the Memorandum and Articles of Association duly certified. Does the MOA of the applicant company have enabling clause/s for conducting MFI business by the company?		
9	Has the applicant company, if a public limited company, provided a certified copy of Certificate of Incorporation (bearing the signature of the Registrar of Companies) with the initial name & fresh certificate of incorporation consequent upon change of name of the Company?		
10	Has the applicant company provided a copy of the PAN/CIN Nos. allotted to the Company?		
11	Has the company submitted certified copies of the audited Balance Sheet & Profit and Loss Account for the last three years? If the company is incurring losses, are the steps to wipe out loss indicated?		
12	Has the applicant company raised unsecured loans, including from the Directors during the year? If yes, do these fall under the definition of public deposits as per Section 2(1)(xii) of the APD Directions, 1998?		
13	Is the company engaged in any capital market activity? If so, whether there has been any non-compliance with SEBI Regulations? (Statement to be certified by Auditors).		
14	What is the latest shareholding pattern of the company and what percentages do they comprise? If there are any NBFC corporate share holders, have the certificates from their statutory auditors regarding the adequacy of statutory NOF of such NBFCs post investment been provided? What is the line of activity of other corporate stake holders?		
15	Does the applicant company hold FDI? If yes, has the FDI been brought in with FIPB approval? (Copy of approval to be submitted). What is the percentage holding?		

	<p>Has the company submitted FIRC and FC-GPR in support thereof?</p> <p>Does the company fulfill the minimum capitalization norms or not? (Statutory Auditor certificate to be submitted)</p> <p>Is the foreign entity contributing the FDI subject to supervision in its home country?</p> <p>If yes, what is the name, address and email id of the regulator?</p> <p>If not, what is the legal status of the foreign investor? Under what statutes was it established? Is it a listed or an unlisted entity? Was any approval given by FED, RBI? If yes, a certified copy of the approval may be attached.</p> <p>Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the home country or elsewhere, if any.</p> <p>If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.</p>		
16	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.		
17	Has the applicant company submitted a certified copy of Board Resolution approving the submission of application and its contents for COR as NBFC-MFI and also authorizing a Director to submit the application?		
18	Has the applicant company submitted a certified copy of the Board Resolution that the company has not accepted any public deposits in the past/ does not hold any public deposits as on date and will not accept the deposits in future without prior approval of the Bank?		
19	Has the applicant company submitted a copy of the board resolution certifying fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations?		
20	Has the applicant company submitted a certified copy of the Board Resolution that the company will adhere to the other regulations regarding pricing of credit, Fair Practices in lending and non-coercive method of recovery as specified in DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011?		
21	Has the applicant company submitted a certified copy of Board resolution stating the company is not licensed under Section 25 of the Companies Act, 1956?		
22	Does the Auditors Certificate certify the following : (a) The company is not holding any public deposits as on date (b) The company is not carrying on any NBFi activity as on date. (c) The company's NOF is ... (d) As per the projected figures given in the business plan of the		

	company will meet the qualifying asset criteria		
23	Has the applicant company given a declaration to the effect that it is capable of electronic submission of Returns through the internet as and when required by Reserve Bank of India? Has the email of the company been provided?		
24	Have all the Directors of the applicant company given a declaration individually that they are not associated with un-incorporated bodies and that they are in compliance to the provisions of Section 45S of the RBI Act, 1934?		
25	<p>Is the Application accompanied by a certificate by a Chartered Accountant on the details including percentage shareholding of group/associate/subsidiary/holding/related companies. <i>(“Companies in the group” have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)-2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.)</i></p> <p>Do the details include names of the company, their activity, their regulators? If they are unregulated, have the details of their activities, provided? Are the names of the above companies/entities appearing in the balance sheet of the applicant company? If not, has the applicant company stated the reasons thereof? Is there any group companies located overseas? If yes, were these established under general permission route or under approval from appropriate authority? Are there any NBFCs from among the group companies? If so, the supervisory findings as observed in the last inspection conducted.</p>		
26	Are there any other NBFC-MFIs/pending NBFC-MFIs in the group? If yes, has the applicant company provided any justification in having another NBFC-MFI within the Group?		
27	Has the applicant Banker’s report in r/o applicant company been furnished?		
28	Has the company furnished the Bankers’ Report in r/o companies in which the Directors of the applicant company have substantial interest as indicated against Items Nos. 14 & 15 of Annexure –III?		
29	Has the company submitted Bankers’ Reports in r/o group/subsidiary/holding companies if any, of the applicant company?		
30	Has the company submitted overseas Bankers’ Reports in r/o foreign directors, if any?		
31	Has the applicant company submitted the Business Plan for the next three years giving details of its thrust of business, market segment & projected balance sheets, Cash flow statement, asset/income pattern		

	statement without any element of public deposits		
32	The Projected business plan for 3 years must indicate the following as well(year wise): i. Amount of loan assets to be originated ii. Amount of loan assets to be extended for income generation iii. Break up of amount of assets to be originated in rural areas and semi-urban and urban areas iv. Activities the company intends to support in rural and semi-urban areas and urban areas v. Projected profits vi. Average cost of borrowings vii. Average Return on Assets(ROA) viii. Qualifying Assets is more than 85% of the Net Assets. ix. Expected capital expenditure in a. land and buildings and b. IT resources x. Locations where the company intends to operate xi. Allocation of resources to training and skill development of SHGs/JLGs		
33	Is the number of directorships held by the company in compliance with Sections 274 - 278 of the Companies Act? If not, give detailed reasons for the same.		
34	Is the company or its Directors involved in any criminal case including Section 138 of Negotiable Instruments Act?		
35	Has the company provided details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies?		
36	What is the source of funds contributing to the initial capital of the applicant NBFC-MFI? Has the company produced documentary proof in this regard?		
37	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"		

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can,if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC-MFI.

**(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the original CoR application may be returned to the company for resubmission afresh with the required information/documents.
documents.**

Checklist for NBFC-MFI- Existing Companies

Name of the applicant Company :

Name of the Regional Office :

	Items to be Checked	Confirm	Page No
1	Is the Application of the Company duly stamped		
2	Is the Application accompanied by the following :		
a	Annexure I Is the Annexure duly signed by the Board authorized Director of the Company under company's stamp? Has the Documentary evidence on membership to at least one Credit Information Bureau/Company submitted? Has the Board passed a resolution that the company will be associated with at least one Self Regulatory Organization (SRO)?		
b	Annexure II duly certified by the Auditor. Are the particulars/information furnished in Annexure II based on figures of latest annual audited balance sheet or a date not earlier than 30 days of date of application.		
c	Annexure III as additional information for each of the Directors Are the DIN and PAN Nos indicated. Has the CIBIL data for all the directors been submitted? If there are any foreign nationals as Directors, are the equivalent of PAN No issued by the authorities of the country of residence such as Social Security No., Passport No. and overseas bankers' report on them furnished? Do the names and addresses on such documents tally with DIN allotment letter. If not, are the reasons for variation provided? Or are the claims of genuineness supported by a magistrate's certificate. Are the current and past directorships held by the Directors and also the names and activities of the companies/firms where they are holding substantial interest (indicate percentage exceeding 10%) mentioned in each of the Annexure		

	<p>III. Are the names of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator) of the entities in which the Directors hold directorships mentioned? If yes, please provide the registration details.</p> <p>Are the entities unregulated? If so what is the nature of their activities?</p> <p>Financial Statements of Unincorporated Bodies,if any,in the group where the directors may be holding directorship with/without substantial interest of the last 2 years.</p>		
3	Are any of the companies indicated against Item No. 15 of Annexure III, an NBFC registered with the Reserve Bank,? If yes, please provide the registration details.		
4	Is the CoR granted to the company to function as an NBFC enclosed in original?		
5	Has the applicant company changed its name earlier? If yes are the earlier held names and dates of change together with the names of Chief Executive Officer and Chairman at the time of change of name furnished? Has the applicant company furnished the reasoning for the change of name?		
6	Details of change in the management of the company during last financial year till date if any and reasons thereof.		
7	Has the applicant company ever defaulted in timely repayment of deposits and payment of interest? If yes, have they provided a list of all such pending cases and the action taken in respect of each case?		
8	Does the applicant company have any cases pending in any court including consumer forums? If yes, have they provided a list of such pending cases, including those pertaining to its deposit acceptance activities, if any?		
9	Are the certified and up-to date copy of the Memorandum of Association (MOA) and Articles of Association of the company submitted?		

	Details of changes in the Memorandum and Articles of Association duly certified. Does the MOA of the applicant company have enabling clause/s for conducting MFI business by the company?		
10	Has the applicant company, if a public limited company, provided a certified copy of Certificate of Incorporation (bearing the signature of the Registrar of Companies) with the initial name & fresh certificate of incorporation consequent upon change of name of the Company?		
11	Has the applicant company provided a copy of the PAN/CIN Nos. allotted to the Company?		
12	Has the company submitted certified copies of the audited Balance Sheet & Profit and Loss Account for the last three years? If the company is incurring losses, are the steps to wipe out loss indicated?		
13	Has the applicant company raised unsecured loans, including from the Directors during the year? If yes, do these fall under the definition of public deposits as per Section 2(1)(xii) of the APD Directions, 1998?		
14	Does the company fulfill the Qualifying asset criteria criteria for registration? Are its qualifying assets (originated on or after January 1, 2012) not less than 85% of its net assets? (Board Resolution certifying the same is to be submitted) <i>(Qualifying assets and net assets have been defined in as specified in DNBS.CC.PD.No. 250/03.10.01/2011-12 dated December 2, 2011 and DNBS (PD) CC.No.300 /03.10.038/2012-13 dated August 3,2012)</i>		
15	If the company does not qualify as a MFI and still proposes to become one, has it provided a time bound action plan for qualifying as one?		
16	If the company does not meet the NOF requirement / minimum capital adequacy ratio as on the date of the last audited balance sheet has the applicant company provided a time bound action plan for compliance		
17	Please provide details of the loan asset		

profile as on the date of application certified by the Statutory Auditor in the following format along with annexure II:

Category	No of accounts	Amount outstanding
(1). Total Loans outstanding as on the date of application		
(i) Of the item (1). above, loans sanctioned on or after January 01, 2012 for amounts of Rs. 15, 000 and below		
(i.i) Of the item at i. above, loans for tenure exceeding 1 year:		
(ii) On the item (1). above, Loans sanctioned on or after January 01, 2012 with amount exceeding Rs. 15,000/-		
(ii.i) for loans at item ii. above, loans for tenure less than 24		

	months				
	(iii) Loans extended towards income generation				
	(iv) Loans where the annual income of the household is (iv.i) more than Rs. 60,000 (for rural areas) (iv.ii) more than Rs. 1,20,000 (for semi urban and urban areas)				
	(v) where the borrower has borrowed from more than 2 MFIs				
	(vi) where the borrower is member of more than 1 SHG/JLG				
	(vii) where the borrower has availed loans in individual capacity as also as member of SHG/JLG				
18	Does the applicant company hold FDI? If yes, has the FDI been brought in with				

	<p>FIPB approval? (Copy of approval to be submitted).</p> <p>What is the percentage holding?</p> <p>Has the company submitted FIRC and FC-GPR in support thereof?</p> <p>Does the company fulfill the minimum capitalization norms or not? (Statutory Auditor certificate to be submitted)</p> <p>Is the foreign entity contributing the FDI subject to supervision in its home country?</p> <p>If yes, what is the name, address and email id of the regulator?</p> <p>If not, what is the legal status of the foreign investor? Under what statutes was it established? Is it a listed or an unlisted entity? Was any approval given by FED, RBI? If yes, a certified copy of the approval may be attached.</p> <p>Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the home country or elsewhere, if any.</p> <p>If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.</p>		
19	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.		
20	Has the applicant company submitted a certified copy of Board Resolution approving the submission of application and its contents for COR as NBFC-MFI and also authorizing a Director to submit the application?		
22	Has the applicant company submitted a certified copy of the Board Resolution that the company has not accepted any public deposits in the past/ does not hold any public deposits as on date and will not		

	accept the deposits in future without prior approval of the Bank?		
23	Has the applicant company submitted a copy of the board resolution certifying fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations?		
24	Has the applicant company submitted a certified copy of the Board Resolution that the company is adhering to the other regulations regarding pricing of credit, Fair Practices in lending and non-coercive method of recovery as specified in DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011?		
25	Has the company provided Board Resolution certifying the following details in addition to Annex II? A. Details of Average interest cost of borrowings of the NBFC-MFI as on March 31, 2011 and 2012. B. Average interest charged by the NBFC-MFI on advances extended as on March 31, 2011 and 2012 C. Of the total loans outstanding as on the date of application, Number and amount of loans outstanding in the state of Andhra Pradesh as on March 31, 2012 (if any) D. Amount of provisions, if any, held against loans in the state of Andhra Pradesh as on March 31, 2012		
26	Does the Auditors Certificate certify the following : (a) The company is not holding any public deposits as on date (b) The company's NOF is . (c) The company's asset size is . (d) The company's qualifying assets (originated on or after January 1,2012) is ... and its ratio to net assets is ...which is not less than 85 %. (e) The company's CRAR is (f) The company's loan portfolio in the state of Andhra Pradesh is g) The company has adopted the asset classification and provisioning norms with effect from April 1, 2012 as specified in DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011. h) The company fulfills all conditions		

	stipulated to be classified as an NBFC-MFI during the current financial year as specified in DNBS.CC.PD.No.250/03.10.01/2011-12 dated December 2, 2011.		
27	Has the applicant company given a declaration to the effect that it is capable of electronic submission of Returns through the internet as and when required by Reserve Bank of India? Has the email of the company been provided?		
28	Have all the Directors of the applicant company given a declaration individually that they are not associated with unincorporated bodies and that they are in compliance to the provisions of Section 45S of the RBI Act, 1934?		
29	<p>Is the Application accompanied by a certificate by a Chartered Accountant on the details including percentage shareholding of group/associate/subsidiary/holding/related companies?</p> <p><i>("Companies in the group" have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)-2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.)</i></p> <p>Do the details include names of the company, their activity, their regulators?</p> <p>If they are unregulated, have the details of their activities, provided?</p> <p>Are the names of the above companies/entities appearing in the balance sheet of the applicant company?</p>		

	<p>If not, has the applicant company stated the reasons thereof?</p> <p>Is there any group companies located overseas?</p> <p>If yes, were these established under general permission route or under approval from appropriate authority?</p> <p>Are there any NBFCs from among the group companies?</p>		
30	<p>Are there any other NBFC-MFIs/pending NBFC-MFIs in the group?</p> <p>If yes, has the applicant company provided any justification in having another NBFC-MFI within the Group?</p>		
31	<p>Has the applicant Banker's report in r/o applicant company been furnished?</p>		
32	<p>Has the company furnished the Bankers' Report in r/o companies in which the Directors of the applicant company have substantial interest as indicated against Items Nos. 14 & 15 of Annexure –III?</p>		
33	<p>Has the company submitted Bankers' Reports in r/o group/subsidiary/holding companies if any, of the applicant company?</p>		
34	<p>Has the company submitted overseas Bankers' Reports in r/o foreign directors, if any?</p>		
35	<p>Has the applicant company submitted the Business Plan for the next three years giving details of its thrust of business, market segment & projected balance sheets, Cash flow statement, asset/income pattern statement without any element of public deposits</p>		
36	<p>The Projected business plan for 3 years must indicate the following as well(year wise):</p> <ul style="list-style-type: none"> i. Amount of loan assets to be originated ii. Amount of loan assets to be extended for income generation iii. Break up of amount of assets to be originated in rural areas and semi-urban and urban areas iv. Activities the company intends to support in rural and semi-urban areas and urban areas 		

	<p>v. Projected profits</p> <p>vi. Average cost of borrowings</p> <p>vii. Average Return on Assets(ROA)</p> <p>viii. Qualifying Assets is more than 85% of the Net Assets.</p> <p>ix. Expected capital expenditure in</p> <p>a. land and buildings and</p> <p>b. IT resources</p> <p>x. Locations where the company intends to operate</p> <p>xi. Allocation of resources to training and skill development of SHGs/JLGs</p>		
37	Is the number of directorships held by the company in compliance with Sections 274 - 278 of the Companies Act? If not, give detailed reasons for the same.		
38	Is the company or its Directors involved in any criminal case including Section 138 of Negotiable Instruments Act?		
39	Has the company provided details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies?		
40	Does the company fulfill the provisioning norms? For the companies having an exposure to the Andhra Pradesh portfolio, the provisioning should be as per the current provisioning norms. However, for the calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally over a period of 5 years. (Please refer to Instructions - Annex II (13) for further clarification)		
41	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"		

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can,if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC-MFI.

(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the request for conversion may be returned to the company for resubmission afresh with the required information/documents.

An indicative list of basic documents/information to be furnished along with the application. All documents/information is to be submitted in duplicate.

Sr No	Requirements to be complied with and documents to be submitted to RBI by Companies for obtaining certificate and Registration from RBI as NBFC- Factor	Page no. in the file
1	Minimum NOF requirement Rs. 500 lakh.	
2	Application to be submitted in two separate sets tied up properly in two separate files and properly page numbered.	
3	Identification particulars (Annex I).	
4	Statement on prudential norms (Annex II).	
5	Information about the management (Annex III)	
6	Is the CoR granted to the company to function as an NBFC enclosed in original? (For existing companies)	
7	Details of change in the management of the company during last financial year till date if any and reasons thereof.	
8	Certified copies of Certificate of Incorporation and Certificate of Commencement of Business in case of public limited companies.	
9	Certified copies of up-to-date Memorandum and Articles of Association of the company.	
10	Details of clauses in the memorandum relating to financial business.	
11	Details of changes in the Memorandum and Articles of Association duly certified.	
12	Copy of PAN/CIN allotted to the company.	
13	Annex II to be submitted duly signed by the director/Authorized signatory and certified by the statutory auditors.	
14	Annex III (directors' profile) to be separately filled up and signed by each director. Care should be taken to give details of bankers in respect of firms/companies/entities in which directors have substantial interest.	
15	In case the directors are associated with or without substantial interest (indicate % of holding in each company firm) in other companies, indicate clearly the activity of the companies and details of their regulators if any.	
16	Certificate from the respective NBFC/s where the Directors have gained NBFC experience.	
17	Copy of PAN and DIN allotted to the Directors.	
18	CIBIL Data pertaining to Directors of the company	
19	Financial Statements of the last 2 years of Unincorporated Bodies, if any, in the group where the directors may be holding directorship with/without substantial interest.	

20	Certificate of compliance with section 45S of Chapter IIIC of the RBI Act, 1934 regarding unincorporated bodies with which director/s of the company are associated.	
21	Whether any prohibitory order was issued in the past to the company or any other NBFC/RNBC with which the directors/promoters etc. were associated? If yes, details there of.	
22	Whether the company or any of its directors was/is involved in any criminal case, including under section 138(1) of the Negotiable Instruments Act? If yes, details thereof.	
23	Board Resolution specifically approving the submission of the application and its contents and authorizing signatory.	
24	Board Resolution to the effect that the company has not accepted any public deposit, in the past (specify period)/does not hold any public deposit as on the date and will not accept the same in future without the prior approval of Reserve Bank of India in writing.	
25	Board resolution stating that the company is not carrying on any NBFC activity/stopped NBFC activity and will not carry on/commence the same before getting registration from RBI. (Only for the new companies)	
26	Certified copy of Board resolution for formulation of "Fair Practices Code"	
27	Board resolution certifying the time limit within which the company would comply with the requirement of fulfilling the NOF criterion of NOF of Rs.500 lakhs (for the existing companies not fulfilling the criteria regarding NOF).	
28	Board Resolution enclosing a road map certifying that they will either raise factoring assets/income percentage to 75 % of total assets/income or unwind the factoring business by July 22, 2014. (for the existing companies not fulfilling the criteria regarding asset income percentage).	
28	Statutory Auditors Certificate certifying that the company is/does not accept/is not holding Public Deposit.	
29	Statutory Auditors Certificate certifying that the company is not carrying on any NBFC activity.	
30	Statutory Auditors Certificate certifying net owned fund as on date of the application.	
31	Statutory Auditors Certificate certifying that financial assets in the factoring business constitute at least 75 percent of its total assets and its income derived from factoring business is not less than 75 percent of its gross income.	
32	Details of Authorised Share Capital and latest shareholding pattern of the company including the percentages. Documentary evidence for change in shareholding pattern,if undergone. If there are any NBFC corporate share holders, certificates from their statutory auditors regarding the adequacy of statutory NOF post investment. Also, provide details about the line of activity of other corporate stake holders.	
33	Copy of Fixed Deposit receipt & bankers certificate of no lien indicating balances in support of NOF	

34	Details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies.	
35	Details of the bank balances/bank accounts/complete postal address of the branch/bank, loan/credit facilities etc. availed.	
36	Details of unsecured loans if any, raised by the company from others (including the directors) during the year and if these fall in the exempted category of Public deposits certified by the Auditor.	
37	<p>Is a certificate of Chartered Accountant regarding details of group/associate /subsidiary/holding/related companies submitted? (<i>'Companies in the group' have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)-2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.</i>)</p> <p>Details should include names of the company, its activity, whether it is an NBFC or have other regulators like SEBI/IRDA/FMC/NHB/Foreign Regulators. If they are unregulated give the details of their activities, principal banker's name, address, account no. Whether the names of these companies are appearing in the balance sheet of the applicant company. If not, indicate why they are not appearing. Whether overseas group companies were established under general permission route or under approval from appropriate authority if any. If there are other NBFCs in the group, justification of having another NBFC.</p>	
38	Brief background note on the activities of the company during the last three years.	
39	Whether the company has applied to RBI in the past for registration, if rejected, give full details. If not applied to RBI earlier, whether the company was doing NBF activities without CoR. If yes, indicate reasons for same. Whether they have completely stopped NBF activities now and whether that has been certified by their auditor. Also, submit a letter seeking to be condoned for violation of Sec 45 IA if the company had conducted NBF business detailing the circumstances.	
40	Last three years Audited balance sheet and Profit & Loss account along with directors & auditors report or for such shorter period as are available (for companies already in existence).	
41	Business plan of the company for the next three years giving details of its (a) thrust of business; (b) market segment; and (c) projected balance sheets, Cash flow statement, asset/income pattern statement without any element of public deposits.	
42	Source of the startup capital of the company substantiated with documentary evidence. Provide Self attested Bank Statement/IT returns etc.	

43	Details of mergers and acquisition with/of other companies if any together with supporting documents.	
44	Is the company engaged in any capital market activity? If so, whether there has been any non-compliance with SEBI Regulations? (Statement to be certified by Auditors).	
45	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.	
46	<p>If there is FDI in the company, its percentage (submit FIRC in support thereof) and whether it fulfills the minimum capitalization norms or not (also submit FC_GPRs).</p> <p>(i) Has the FDI been brought in with FIPB approval (Copy of approval to be submitted)?</p> <p>(ii) Is the foreign entity contributing the FDI subject to supervision in its home country (if yes, name, address and email id of the regulator).</p> <p>(iii) If not, mention legal status, viz, statutes under which it was established, its statutory obligations, procedures under which it was established, whether listed on stock exchange etc.</p> <p>(iv) The particulars of approval of Foreign Exchange Department (FED) if any obtained/copies of Foreign Inward Remittance Certificate in r/o Foreign Direct Investment if any, received by the applicant company are furnished.</p> <p>(v) Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the home country or elsewhere, if any.</p> <p>(v) If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.</p>	
47	Declaration by the company to own electronic infrastructure and its capability regarding electronic submission of data through the internet as and when required by Reserve Bank of India. Email id of the company should also be provided.	
48	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"	

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can, if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as NBFC- Factor

(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the application/request for conversion may be returned to the company for resubmission afresh with the required information/documents.

An indicative list of basic documents/information to be furnished along with the application. All documents/information is to be submitted in duplicate

Sr.No	Requirements to be complied with and documents to be submitted to RBI by Companies for obtaining certificate and Registration from RBI as Core Investment Company (CIC)	Page No. as in the file
1	Details of access to Public Funds.	
2	If the company does not have public funds but intends to access public funds anytime in the future and therefore applying for the CoR, they have to submit the Board Resolution to the effect that they intend to raise resources through public funds at a future date.	
3	Application to be submitted in two separate sets tied up properly in two separate files and properly page numbered.	
4	Identification particulars (Annex I).	
5	Statement on prudential norms (Annex II).	
6	Information about the management (Annex III)	
7	Details of change in the management of the company during last financial year till date if any and reasons thereof.	
8	Certified copies of Certificate of Incorporation and Certificate of Commencement of Business in case of public limited companies.	
9	Certified copies of up-to-date Memorandum and Articles of Association of the company.	
10	Details of clauses in the memorandum relating to financial business.	
11	Details of changes in the Memorandum and Articles of Association duly certified.	
12	Copy of PAN/CIN allotted to the company.	
13	Annex II to be submitted duly signed by the director/Authorized signatory and certified by the statutory auditors.	
14	Annex III (directors' profile) to be separately filled up and signed by each director. Care should be taken to give details of bankers in respect of firms/companies/entities in which directors have substantial interest.	
15	In case the directors are associated with or without substantial interest (indicate %of holding in each company firm) in other companies, indicate clearly the activity of the companies and details of their regulators if any.	
16	Certificate from the respective NBFC/s where the Directors have gained NBFC experience.	
17	Copy of PAN and DIN allotted to the Directors.	
18	CIBIL Data pertaining to Directors of the company	
19	Financial Statements of the last 2 years of Unincorporated Bodies, if any, in the group where the directors may be holding directorship with/without substantial interest	
20	Certificate of compliance with section 45S of Chapter IIIC of the RBI Act, 1934 regarding unincorporated bodies with which director/s of the company are associated.	
21	Whether any prohibitory order was issued in the past to the company or any other NBFC/RNBC with which the directors/promoters etc. were associated? If yes, details thereof.	
22	Whether the company or any of its directors was/is involved in any	

	criminal case, including under section 138(1) of the Negotiable Instruments Act? If yes, details thereof.	
23	Board Resolution specifically approving the submission of the application and its contents and authorising signatory.	
24	Board Resolution to the effect that the company has not accepted/solicited any public deposit and will not accept the same in future without the prior approval of Reserve Bank of India in writing.	
25	Board resolution stating that the company was not trading/ will not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment.	
26	Board resolution stating that the company does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the Reserve Bank of India Act, 1934 except investment in i) bank deposits, ii) money market instruments, including money market mutual funds iii) government securities, and iv) bonds or debentures issued by group companies, v) granting of loans to group companies and vi) issuing of guarantees on behalf of group companies.	
27	Certified copy of Board resolution for formulation of "Fair Practices Code"	
28	Statutory Auditors Certificate certifying that the company is/does not accept/is not holding Public Deposit.	
29	Statutory Auditors Certificate certifying that the company had not traded, during the year in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment.	
30	Statutory Auditors Certificate certifying that the company does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the Reserve Bank of India Act, 1934 except investment in i) bank deposits, ii) money market instruments, including money market mutual funds iii) government securities, and iv) bonds or debentures issued by group companies, v) granting of loans to group companies and vi) issuing of guarantees on behalf of group companies.	
31	Statutory Auditors Certificate certifying Average Market Price of quoted investments.	
32	Statutory Auditors Certificate certifying the net asset size of the company.	
33	Statutory Auditors Certificate certifying investment in group companies as percent of its Net Assets.	
34	Statutory Auditors Certificate certifying investments in equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies as percent of its net assets	
35	Details of Authorised Share Capital and latest shareholding pattern	

	of the company including the percentages. Documentary evidence for change in shareholding pattern, if undergone. If there are any NBFC corporate shareholders, certificates from their statutory auditors regarding the adequacy of statutory NOF post investment. Also, provide details about the line of activity of other corporate stake holders.	
36	Details of infusion of capital if any during last financial year together with the copy of return of allotment filed with Registrar of Companies.	
37	Details of the bank balances/bank accounts/complete postal address of the branch/bank, loan/credit facilities etc. availed.	
38	Details of unsecured loans if any, raised by the company from others (including the directors) during the year and if these fall in the exempted category of Public deposits certified by the Auditor.	
39	<p>A certificate of Chartered Accountant regarding details of group/associate/subsidiary/holding/related companies is to be submitted.</p> <p><i>(For the purposes of determining whether a company is a CIC/CIC-ND-SI, 'companies in the group' have been exhaustively defined in para 3(1) b of Notification No. DNBS.(PD) 219/CGM (US)-2011 dated January 05, 2011 as an arrangement involving two or more entities related to each other through any of the following relationships, viz; subsidiary-parent (defined in terms of AS-21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), promoter-promotee (as provided in the SEBI-Acquisition of shares and takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above.)</i></p> <p>Details should include names of the company, its activity, whether it is an NBFC or have other regulators like SEBI/IRDA/FMC/NHB/Foreign Regulators. If they are unregulated give the details of their activities, principal banker's name, address, account no. Whether the names of these companies are appearing in the balance sheet of the applicant company. If not, indicate why they are not appearing. Whether overseas group companies were established under general permission route or under approval from appropriate authority if any. If there are other NBFCs in the group, justification of having another NBFC.</p>	
40	Details of other CICs in the group. If they are not registered with the Bank, reasons for the same may be given. Justification of having another CIC in the group also should be provided.	
41	Brief background note on the activities of the company during the last three years.	
42	Last three years Audited balance sheet and Profit & Loss account along with directors & auditors report or for such shorter period as are available (for companies already in existence).	
43	Business plan of the company for the next three years giving details of its (a) thrust of business; (b) market segment; and (c) projected balance sheets, Cash flow statement, asset/income pattern statement.	
44	Source of the startup capital of the company substantiated with	

	documentary evidence. (only for the new companies).	
45	Details of mergers and acquisition with/of other companies if any together with supporting documents.	
46	Is the company engaged in any capital market activity? If so, whether there has been any non-compliance with SEBI Regulations? (Statement to be certified by Auditors).	
47	Whether the company was granted any permission by FED to function as Full-fledged Money Changers? If so, copy of the RBI letter granting the permission.	
48	<p>If there is FDI in the company, its percentage (submit FIRC in support thereof) and whether it fulfills the minimum capitalization norms or not (also submit FC_GPRs).</p> <p>(i) Has the FDI been brought in with FIPB approval (Copy of approval to be submitted)?</p> <p>(ii) Is the foreign entity contributing the FDI subject to supervision in its home country (if yes, name, address and email id of the regulator).</p> <p>(iii) If not, mention legal status, viz, statutes under which it was established, its statutory obligations, procedures under which it was established, whether listed on stock exchange etc.</p> <p>(iv) The particulars of approval of Foreign Exchange Department (FED) if any obtained/copies of Foreign Inward Remittance Certificate in r/o Foreign Direct Investment if any, received by the applicant company are furnished.</p> <p>(v) Activities undertaken, details of regulator of group/associate companies doing financial activities which are regulated either in the home country or elsewhere, if any.</p> <p>(v) If any group/ associate company is operating in India, details such as its activities, its partners or associates, regulator/s etc. may be furnished.</p>	
49	Declaration by the company to own electronic infrastructure and its capability regarding electronic submission of data through the internet as and when required by Reserve Bank of India. Email id of the company should also be provided.	
50	A company which is already in existence and whose (i) minimum Capital Ratio in terms of Adjusted Net Worth is less than 30% of its aggregate risk weighted assets on Balance Sheet and risk adjusted value of off-balance sheet items as on the date of the last audited Balance Sheet, and/or (iii) a Leverage Ratio where its outside liabilities are exceeding 2.5 times its Adjusted Net Worth as on the date of the last audited Balance Sheet, as on the date of application, may also furnish a time-bound programme as to how it proposes to adhere to these requirements.	
51	A company which proposes to become a CIC-ND-SI but does not	

	qualify in terms of 90% of net assets under investments may also give a time bound action plan as to how it would achieve such eligibility.	
52	Are there are any incidents of non-compliance with the directions of Revenue Authorities or any other statutory authority by the applicant company, its holding company/ subsidiaries, If yes, give particulars, else report "Nil"	

Note: (1) The Above Checklist is indicative and not exhaustive. Bank can, if necessary, call for any further documents to satisfy themselves on the eligibility for obtaining registration as CIC.

(2) In the event of the Bank calling for further documents in addition to those mentioned above, the applicant company is supposed to respond within a stipulated time of one month failing which the original CoR application may be returned to the company for resubmission afresh with the required information/documents.

A. Guidelines on Private Placement by NBFCs:

1. Definitions:

i. "Preferential Allotment" or "Private placement" means an issue of capital made by an NBFC in pursuance of a resolution passed under sub-section (1A) of section 81 of the Companies Act, 1956.

ii. "Public issue" means an invitation by an NBFC to public to subscribe to the securities offered through a prospectus.

iii. A Non-Banking Financial Company (NBFC) means an NBFC as defined in Section 45 I (f) read with Section 45 I (c) of the RBI Act, 1934.

2. Regulations

i. The offer document for private placement should be issued within a maximum period of 6 months from the date of the Board Resolution authorizing the issue. The offer document should include the names and designations of the officials who are authorised to issue the offer document. The Board Resolution and the offer document must contain information on purpose for which the resources are being raised.

ii. The offer document may be printed or typed "For Private Circulation Only". General information including the address of the registered office of the NBFC, date of opening / closing of the issue etc. shall be clearly mentioned in the offer document.

iii. An NBFC shall only issue debentures for deployment of funds on its own balance sheet and not to facilitate resource requests of group entities/ parent company / associates.

iv. Private placement by all NBFCs shall be restricted to not more than 49 investors, identified upfront by the NBFC.

v. The minimum subscription amount for a single investor shall be Rs. 25 lakh and in multiples of Rs.10 lakh thereafter.

vi. There should be a minimum time gap of at least six months between two private placements.

vii. An NBFC shall not extend loans against the security of its own debentures (issued either by way of private placement or public issue).

viii. All other extant instructions with regard to private placement remain unchanged.

ix. The provisions of the Guidelines shall override other instructions wherever contradictory.

B. Security cover for debentures (by private placement or public issue):

NBFCs shall ensure that at all points of time the debentures issued, including short term NCDs, are fully secured. Therefore in case, at the stage of issue, the security cover is insufficient /not created, the issue proceeds shall be placed under escrow until creation of security, which in any case should be within one month from the date of issue.

C. Amendment to Directions:

(i) Para 2(xii)(f) and (i) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 has been amended to clarify that only those debentures that are either compulsorily convertible into equity or fully secured would be exempted from the definition of public deposits. Hybrid / subordinated debt with a maturity not less than sixty months would continue to be exempted from the definition of public deposits provided there is no option for recall by the issuer within the period.

List of Circulars

Sl. No.	Circular No.	Date
1.	DNBS.(PD).CC.No.11/02.01/99-2000	November 15, 1999
2.	DNBS.(PD).CC.No.12/02.01/99-2000	January 13, 2000
3.	DNBS.(PD).CC.No.15/02.01/2000-2001	June 27, 2001
4.	DNBS.(PD).C.C.No.27/02.05/2003-04	July 28, 2003
5.	DNBS.(PD).C.C.No.28/02.02/2002-03	July 31, 2003
6.	DNBS.(PD).CC.No.37/02.02/2003-04	May 17, 2004
7.	DNBS.(PD).CC.No.38/02.02/2003-04	June 11, 2004
8.	DNBS.(PD).C.C.No.42/02.59/2004-05	July 24, 2004
9.	DNBS.(PD).C.C.No.43/05.02/2004-05	August 10, 2004
10.	DNBS.(PD).C.C.No.47/02.01/2004-05	February 07, 2005
11.	DNBS.(PD).CC.No.49/02.02/2004-05	June 9, 2005
12.	DNBS.(PD).CC.No.63/02.02/2005-06	January 24, 2006
13.	DNBS.(PD).C.C.No.79/03.05.002/2006-07	September 21, 2006
14.	DNBS.(PD).C.C.No.81/03.05.002/2006-07	October 19, 2006
15.	DNBS.(PD).CC.No.82/03.02.02/2006-07	October 27, 2006
16.	DNBS.PD.CC. No.85/03.02.089/2006-07	December 06, 2006
17.	DNBS.(PD)C.C No.87/03.02.004/2006-07	January 4, 2007
18.	DNBS.PD/C.C.No.105/03.10.001/2007-08@ @ Actual Circular Number should be DNBS.PD/C.C.No.96/03.10.001/2007-08	July 31, 2007
19.	DNBS.PD/C.C No.109/03.10.001/2007-08	November 26, 2007
20.	DNBS. (PD).C.C.No.114/03. 02.059/2007-08	June 17, 2008
21.	DNBS.(PD).C.C.No.124/03.05.002/2008-09	July 31, 2008
22.	DNBS.PD.CC No.128/03.02.059/2008-09	September 15, 2008
23.	DNBS.PD. Notification No.208	September 17, 2008* * Actual date should be 17-09-09
24.	DNBS.PD.CC.No.130/03.05.002/2008-09	September 24, 2008
25.	DNBS.PD.CC.No.137/03.05.002/2008-09	March 02, 2009
26.	DNBS.PD/CC.No.142/03.05.002/2008-09	June 9, 2009
27.	DNBS.(PD).CC.No.167/03.10.01/2009-10	February 04, 2010

28.	DNBS.PD.CC.No.168/03.02.089/2009-10	February 12 , 2010
29.	DNBS.(PD).CC.No.173/03.10.01/2009-10	May 03, 2010
30.	DNBS.(PD).C.C.No.174/03.10.001/2009-10	May 6, 2010
31.	DNBS.CC.PD.No.191/03.10.01/2010-11	July 27, 2010
32.	DNBS (PD) CC No. 195 / 03.10.001/ 2010-11	August 9, 2010
33.	DNBS.(PD).CC.No.200/03.10.001/2010-11	September 17, 2010
34.	DNBS(PD).CC.No.206/03.10.001/2010-11	January 5, 2011
35.	DNBS.CC.PD.No.208/03.10.01/2010-11	January 27, 2011
36.	DNBS(PD).CC. No.245 /03.10.42 /2011-12	September 27 , 2011
37.	DNBS(PD).CC. No 248 /03.10.01 /2011-12	October 28, 2011
38.	DNBS (PD)CC.No.259 /03.02.59/2011-12	March 15, 2012
39.	DNBS.CC.PD.No.253/03.10.01/2011-12	December 26, 2011
40.	DNBS.CC.PD.No.265/03.10.01/2011-12	March 21, 2012
41.	DNBS. PD. No. 301/3.10.01/2012-13	August 21, 2012
42.	DNBS.PD/ CC.NO.308 /03.10.001/2012-13	November 6, 2012
43.	DNBS(Inf.).CC. No 309/24.01.022 /2012-13	November 8, 2012
44.	DNBS.CC.PD.No. 312 /03.10.01/2012-13	December 7, 2012
45.	DNBS.PD.CC.No. 317/03.10.001/2012-13	December 20, 2012
46.	DNBS.CC.PD.No.326/03.10.01/2012-13	May 27, 2013
47.	DNBS(PD)CC.NO 330/03.10.01/2012-13	June 27, 2013
