



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



www.rbi.org.in

RBI/2022-23/32

DOR.CRE.REC.24/21.01.003/2022-23

April 19, 2022

All Non-Banking Financial Companies

Madam/ Dear Sir,

Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL)

Please refer to paragraph 3.2.2 (d) of [RBI circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#) on “Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs”, in terms of which a Large Exposure Framework (LEF) is prescribed for NBFCs in the Upper Layer.

2. Detailed guidelines in this regard are [annexed](#).

Yours faithfully,

(Manoranjan Mishra)
Chief General Manager

Large Exposures Framework (LEF)**1 Introduction**

- 1.1 Prudential guidelines on exposure norms aim at addressing credit risk concentration in NBFCs. These instructions set out to identify large exposures, refine the criteria for grouping of connected counterparties and put in place reporting norms for large exposures.

2 Definitions

- 2.1 “NBFC-UL” means an NBFC placed in the upper layer as per [RBI circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#) on “Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs”.
- 2.2 “Tier I Capital” for the purpose of the guidelines shall have the same meaning as defined in the [Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#). Further, profits accrued during the year will be reckoned as Tier I capital for the purpose of LEF after making necessary adjustments as per the guidelines applicable to NBFC-UL. The NBFC-UL shall obtain an external auditor’s certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Supervision) before reckoning the additions to capital funds.
- 2.3 “Eligible capital base” means Tier 1 capital as defined at paragraph 2.2 above.
- 2.4 “Control¹” means the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders’ agreements or voting agreements or in any other manner.

¹ Clause (27) of Section 2 of the Companies Act, 2013

2.5 “Group of connected counterparties” means two or more (natural or legal) persons who satisfy at least one of the following conditions:

- a) Control relationship: one person directly or indirectly, has control over the other(s), or such persons are under the common control of a third party (irrespective of whether the NBFC has exposure to the third party or not). Control relationship criteria is automatically satisfied if one entity owns more than 50 percent of the voting rights of the other entity;
- b) Economic interdependence: In establishing connectedness based on economic interdependence, NBFC-UL must consider, at a minimum, the following criteria:
 - Where 50% or more of one counterparty's gross receipts or gross expenditure (on an annual basis) is derived from transactions with the other counterparty;
 - Where one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant that the guarantor is likely to default if a claim occurs;
 - Where a significant part of one counterparty's production/ output is sold to another counterparty, which cannot easily be replaced by other customers;
 - When the expected source of funds to repay the loans of both counterparties is the same and neither counterparty has another independent source of income from which the loan may be serviced and fully repaid;
 - Where it is likely that the financial problems of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;
 - Where the insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other(s);
 - When two or more counterparties rely on the same source for the majority of their funding and, in the event of the common provider's default, an alternative provider cannot be found - in this case, the

funding problems of one counterparty are likely to spread to another due to a one-way or two-way dependence on the same main funding source.

- In order to avoid cases where a thorough investigation of economic interdependencies will not be proportionate to the size of the exposures, NBFC-UL are expected to identify possible connected counterparties on the basis of economic interdependence in all cases where the sum of all exposures to one individual counterparty exceeds 5% of the eligible capital base, and not in other cases.

2.6 “Large Exposure” (“LE”) means the sum of all exposure values of a NBFC-UL measured in terms of paragraph 6 of these instructions, to a counterparty and/or a group of connected counterparties, if it is equal to or above 10 percent of the NBFC-UL’s eligible capital base.

3 Scope of application

3.1 The guidelines shall be applicable to NBFC-UL, both at the solo level and at the consolidated (group) level.

3.2 Exposure shall comprise both on and off-balance sheet exposures by the NBFC-UL.

4 Scope of counterparties and exemptions

4.1 NBFC-UL’s exposure to all its counterparties and groups of connected counterparties, excluding the exposures listed below, will be considered for exposure limits. The exposures that are exempted from the LEF are listed below:

- a) Exposure to the Government of India and State Governments which are eligible for zero percent risk weight under capital regulations applicable to NBFC-UL;
- b) Exposure where the principal and interest are fully guaranteed by the Government of India;
- c) NBFC-UL’s exposure to group entities that is deducted from its Owned Funds to arrive at the NOF.
- d) Investment in the equity capital of the insurance company to the extent specifically permitted in writing by the Bank.

4.2 Exposures shall be permitted to be offset with credit risk transfer instruments as per principle indicated at paragraph 6.1 of the Annex and the indicative list of such instruments is provided below:

- a) Cash margin/ caution money/ security deposit against which right to set off is available, held as collateral against the advances;
- b) Central Government guaranteed claims which attract 0% risk weight for capital computation;
- c) State Government guaranteed claims which attract 20% risk weight for capital computation;
- d) For corporate bonds held in current category and hedged by Credit Default Swap (CDS), where there is no mismatch between the CDS and the hedged bond, the credit protection has been permitted to be recognised to a maximum of 80% of the exposure hedged. The remaining 20% of the exposure shall be recognised on the original counterparty. For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the NBFC-UL can recognise full credit protection for the underlying asset. The exposure of the original counterparty shall stand fully substituted by the exposure to the protection seller.

Except for 4.2 (a) and (b) above, in all other cases where exposure to the original counterparty is reduced on account of an eligible credit risk transfer instrument provided by another counterparty for that exposure, it needs to be recognized as an exposure to that extent on the credit risk transfer instrument provider.

4.3 Where two (or more) entities falling outside the scope of the sovereign exemption are controlled by or are economically dependent on an entity that falls within the scope of the sovereign exemption {paragraph 4.1(a)}, and are otherwise not connected, those entities will not be deemed to constitute a group of connected counterparties.

4.4 NBFC-UL's exposure to an exempted entity which is hedged by a credit derivative shall be treated as an exposure to the counterparty providing the credit protection notwithstanding the fact that the original exposure is exempted.

4.5 NBFC-UL which is held by an NOFHC shall not

- a) have any exposure (credit and investments including investments in the equity/ debt capital instruments) to the Promoters/ Promoter Group entities or individuals associated with the Promoter Group or the NOFHC;
- b) Make investment in the equity/ debt capital instruments in any of the financial entities under the NOFHC;
- c) Invest in equity instruments of other NOFHCs.

Explanation: For the purposes of this paragraph, the expression, "Promoter" and Promoter group" shall have the meaning assigned to those expressions in the "Guidelines for licensing of New Banks in the Private Sector" issued by the Bank.

5 The Large Exposure limits

5.1 Single Counterparty:

- a) The sum of all the exposure values of an NBFC-UL to a single counterparty must not be higher than 20 percent of the NBFC-UL's available eligible capital base at all times.
- b) Board of the NBFC-UL may allow additional 5 percent exposure beyond 20 percent but at no time higher than 25% of the NBFC-UL's eligible capital base, subject to the following conditions:
 - i) NBFC-UL has a policy approved by its board of directors setting out conditions under which exposure beyond 20% may be considered; and
 - ii) NBFC-UL shall record in writing the exceptional reasons for which exposure beyond 20% is being allowed in a specific case.

Provided that an Infrastructure Finance Company (IFC) may further exceed the exposure limit by 5 percent of Tier I capital for exposure to a single counterparty.

Provided further that an NBFC-UL may exceed the exposure limit by 5 percent of its Tier I capital for exposure to a single counterparty, if the additional

exposure is on account of infrastructure 'loan and/ or investment'. However single counterparty limit shall not exceed 25% in any case for NBFC-UL (other than IFC) and 30% for NBFC-UL(IFC).

5.2 Groups of Connected Counterparties:

- a) The sum of all exposure values of an NBFC-UL to a group of connected counterparties shall not be higher than 25 percent of the NBFC-UL's available eligible capital base at all times.

Provided that an IFC may exceed the exposure limit by 10 percent of its Tier I capital for exposure to a group of connected counterparties.

Provided further that an NBFC-UL may exceed the exposure limit by 10 percent of its Tier I capital for exposure to a group of connected counterparties, if the additional exposure is on account of infrastructure 'loan and/ or investment'.

- b) Each NBFC-UL shall frame a policy approved by its board to determine the existence of a group of connected counterparties. The policy framed, and assessments made under such a policy shall be subject to supervisory scrutiny.
- c) In exceptional cases, if a NBFC-UL demonstrates to the RBI that despite control being established, such control does not necessarily result in the entities concerned constituting a group of connected counterparties (e.g., existence of control between counterparties due to specific circumstances and corporate governance safeguards), then it is not required to classify the entities as a group of connected counterparties.
- d) In exceptional cases, if a NBFC-UL can demonstrate to the RBI that a counterparty which is economically closely related to another counterparty may overcome financial difficulties, or even the second counterparty's default, by finding alternative business partners or funding sources within an appropriate time period, then it is not

required to classify the entities as a group of connected counterparties.

5.3 A summary of the LEF limits for NBFC-UL is given below:

(as % of eligible capital base)

	NBFC-UL (Other than IFC)	NBFC-UL (IFC)
Single Counterparty	<ul style="list-style-type: none"> • 20% • additional 5% with Board approval • additional 5% if exposure towards Infrastructure loan/investment <p>(Single counterparty limit shall not exceed 25% in any case)</p>	<ul style="list-style-type: none"> • 25% • additional 5% with Board approval
Group of connected Counterparties	<ul style="list-style-type: none"> • 25% • additional 10% if exposure towards Infrastructure loan/investment 	<ul style="list-style-type: none"> • 35%

5.4 **Relation between interconnectedness through control and interconnectedness through economic dependency:**

There may be situations where the control relationship and economic interdependence are interlinked. Therefore, one group of connected counterparties could include both types of factors in such a way that all relevant counterparties constitute a single risk for the NBFC-UL. Risk of contagion is present irrespective of type of connectedness (i.e. control or economic interdependence) between counterparties. NBFC-UL should assess counterparties with a view to identifying the chain of contagion leading to possible default of all entities.

6 Values of exposures

6.1 An exposure to a counterparty shall constitute both on and off-balance sheet exposures which shall be calculated according to the method prescribed for capital computation in [Master Direction - Non-Banking Financial Company -](#)

[Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#), as amended from time to time. The exposures shall be permitted to be offset with credit risk transfer instruments permitted in the aforesaid directions.

6.2 Factoring transactions: In the case of factoring on “with-recourse” basis, the exposure shall be reckoned on the assignor. In case of factoring on “without-recourse” basis, the exposure shall be reckoned on the debtor, irrespective of credit risk cover/ protection provided, except in cases of international factoring where the entire credit risk has been assumed by the import factor.

6.3 Exposures to Central Counterparties:

- a) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions outstanding against them shall be assigned zero exposure value. However, these exposures will be subject to the regulatory reporting requirements as defined in paragraph 7.
- b) Amount of the collaterals with CCPs shall be reckoned for arriving at the exposure limit.
- c) Other exposures: Other types of exposures such as equity stake, funding facilities, credit facilities, guarantees etc., shall be measured according to the rules set out in this framework, as for any other type of counterparty. These exposures shall be added together and be subjected to the LE limit.

6.4 **Breach**

- a) Any breach of Large Exposure limits shall be under exceptional conditions beyond the control of NBFC-UL, and it shall be reported to

RBI (Department of Supervision, Central Office) immediately and rapidly rectified.

- b) NBFC-UL cannot undertake any further exposure (at the entity or group level, as the case may be) until it is brought down within the limit.
- c) Failure to comply with the exposure limit may lead to imposition of penalties on the NBFC-ULs by the supervisor.

7 Regulatory reporting

NBFC-UL shall report its Large Exposures to the Reserve Bank (Department of Supervision, Central Office) as per the reporting template given in [Appendix 1](#). The LEF reporting shall cover the following:

- a) all exposures, meeting the definition of large exposure;
- b) all other exposures, measured as specified in paragraph 6 of this framework without offsetting exposure value with credit risk transfer instruments, where values stand equal to or above 10 percent of the NBFC-UL's eligible capital base;
- c) all the exempted exposures with values equal to or above 10 percent of the NBFC-UL's eligible capital base;
- d) 10 largest exposures included in the scope of application, irrespective of the values of these exposures relative to the NBFC-UL's eligible capital base.

8 Implementation date and transitional arrangements

These instructions will be applicable from October 1, 2022. Once NBFC-UL is subject to LEF, credit concentration norms in respect of single/ group of borrowers contained in [Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#) shall no longer be applicable to NBFC-UL.

Appendix 1

Return on Large Exposures

Name of the NBFC-UL	
Return for the Month	
Eligible Capital base (Tier I)	(Rs. crore)

A. NBFC-UL's 10 Largest Exposures to counterparties (single as well as group of connected counterparties) irrespective of their values relative to NBFC-UL's eligible capital base

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
3.				
--				
--				
10.				

B. NBFC-UL's Large Exposures with values equal to or above 10% of Tier I Capital

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
--				
n				

C. NBFC-UL's other exposures (measured without offsetting credit transfer instruments) with values equal to or above 10% of Tier I Capital (not including exposures reported in B already)

SI No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
--				
n.				

D. NBFC-UL's exempted exposures with values equal to or above 10% of Tier I Capital

SI No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
--				
n.				