NBFC norms due to global action: RBI

TIMES NEWS NETWORK

Mumbai: The Reserve Bank of India (RBI) has indicated that its new norms on non-banking finance companies (NBFCs) have been developed under pressure from association of regulators worldwide and part of a concerted global move to reign in 'shadow' banking activities. The regulator, however, clarified that small NBFCs that fail to receive a registration can continue to be in business and avail bank finance.

"This is part of an international agenda and all responsible countries have to abide," said Anand Sinha, deputy governor, RBI, said on Monday while addressing NBFC representatives in a meeting organized by the Finance Industry Development Council at the Indian Merchants Chamber here. Stating that RBI has to align with what is happening internationally, Sinha said that after the global financial crisis of 2008 the focus has been on institutions that engage in 'shadow' banking—financial entities that conduct banking like functions but do not have a banking licence. "Banks are being subject to very restrictive regulations. If regulations for banks are tightened, risks will flow to lightly regulated entities," said Sinha.

Representatives of the finance industry, however, said that the move by RBI to increase capital requirement and tighten bad loan norms for finance companies would force several companies out of business. "If it is the intention of the RBI to remove regulatory arbitrage, then it should remove the arbitrage on both sides of the balance sheet," said T T Srinivasaraghavan, MD, Sundaram Finance. According to Srinivasaraghavan, finance companies have to hold higher capital than banks even if the assets held by them are of identical quality. Also, banks get tax breaks on bad loans which finance companies do not, he said.

Rs 25-crore criterion only for deposit-taking NBFCs

Our Bureau

Mumbai, Jan. 7

Reserve Bank of India Deputy Governor Anand Sinha tried to allay fears of smaller non-banking financial companies (NBFCs) which fear that they will be out of business if new regulations are notified.

"NBFCs will not go out of business if they do not adhere to the Rs 25-crore asset size.

"To conserve regulatory resources, we will not register an NBFC till it attains Rs 25-crore balance sheet. If such NBFCs are already registered, then we will give them time to meet this criterion," Sinha said at a seminar on NBFCs organised by the Indian Merchants' Chamber.

This Rs 25 crore-balance-sheet criterion is only required to be adhered to by deposit-taking NBFCs, he clarified.

Other NBFCs will not be regulated if their balance-sheet size is Rs 500 crore or less, Sinha said. Last month, the RBI released draft guidelines authored by Usha Thorat, Director, Centre for Advanced Financial Research and Learning, to further regulate the NBFC sector.

Asserting that world over the focus is now shifting towards regulation of the shadow-banking system, of which NBFCs are a part, Sinha said, "We value NBFCs. Because you are very important, you also have the ability to create systemic risks and that is why we want to regulate you."

PRINCIPAL BUSINESS

The Deputy Governor said there is a concern that NBFCs or captive NBFCs belonging to business groups will align with the groups' philosophy.

"Ideally, we want all NBFCs to only be financial entities. However, that is not possible. Hence we have to bring in regulations to monitor such NBFCs," Sinha added. He also said that to ascertain risks of NBFCs better, the RBI has raised the tier-I capital requirement to 12 per cent for certain NBFCs (such as capitive NBFCs, those involved in real estate, commodities and capital markets). For other NBFCs it has been kept at 10 per cent, he added.

Clarifying thethe non-performing-asset classification, to be cut to 90 days from 180in phases, Sinha asked NBFCs to adjust the payment cycle to meet their client requirements.

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RBI Allays Fears Over Survival of Small NBFCs

OUR BUREAU

MUMBAI

Non-banking finance companies, or NBFCs, with assets less than ₹25 crore will be deregistered if the Usha Thorat committee recommendations are accepted, but they will not go out of business, a senior RBI official has said.

"We are looking to focus on systemically important NBFCs," RBI deputy governor Anand Sinha said. "I find it hard to believe that those who are not registered or regulated and with less than ₹25 crore (of assets) will die or go out of business. If that is so, we should be regulating even if the balance sheet size is Rs 1 lakh, and that is not fair."

Sinha said there are systemic risks from NBFCs. He cited four kinds of risks associated with the sector — liquidity, leverage, contagion and regulatory. There were 12,371 registered NBFCs as of November 2012, data from the Reserve Bank of India shows. There are 12,104 non-deposit taking NBFCs, while 265 take deposits from retail investors.

Sinha also hinted at allowing part of the statutory liquidity ratio (SLR) holdings of banks to be treated as liquid assets under the Basel-III guidelines, which will come into effect next fiscal.

"We already have quite a bit of liquidity ratio requirement.... We are looking at carving out SLR so that a part of it can become usable," Sinha said.

Final norms on new bank licences soon, says RBI

BS REPORTER

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RBI Deputy Governor Anand Sinha

The Reserve Bank of India (RBI) today said it would issue the final guidelines on new banking licences soon. "We are trying to bring them out as soon as possible," said Anand Sinha, deputy governor, RBI. He, however, declined to give any time frame for this. Market participants expect the guidelines to be released before the third quarterly review of monetary policy on January 29.

He declined to comment on whether RBI would be giving banking licences to corporate houses. "We have issued draft guidelines. I can't say anything beyond that," he said. He was speaking on the sidelines of a discussion on the draft norms for non-banking financial companies (NBFC) released by RBI.

These norms were based on the Usha Thorat committee report on the sector. The discussion was organised by the Finance Industry Development Council (FIDC), an umbrella body of NBFCs.

NBFCs said they felt the draft norms were very difficult to comply with and have requested these be relaxed. FIDC has requested RBI to provide tax benefits, access to asset restructuring companies, etc, before the final norms are place. Unlike banks, NBFCs don't get any tax benefit on their provisioning book. Also, they aren't permitted to restructure their assets. Any restructuring would lead to the assets being recognised as non-performing, according to extant regulations.

Sinha said the central bank would look into the concerns raised by NBFCs. He, however, added nothing could be assured and advised NBFCs "to live with it". He said there was no question of treating NBFCs on a par with banks, as banks had more stringent regulatory norms.

Key norms for NBFCs include higher tier-1 capital, recognising NPAs in 90 days, against the current 180 days, and increased risk weight for sensitive sectors such as real estate. Sinha said the norms were in line with global norms and India, as a G-20 nation, was obliged to follow other such nations. Global norms stipulate regulators to reduce the gap between capital adequacy ratios of banks and NBFCs.

Many small NBFCs fear they would be out of business if RBI, in its final norms, continues the stance of deregistration below an asset size of ₹25 crore. Sinha said small NBFCs need not fear deregistration.

આરબીઆઈના એનવીએફસી સેક્ટર માટે ઉષા થોરાતના નેતૃત્વ હેઠળની કમિટીએ અહેવાલ તૈયાર કરવા માટે ઈન્ડિયન મર્ચન્ટ્સ ચેમ્બર ખાતે સોમવારે એક બેઠક યોજી હતી. તસવીરમાં ડાબેથી શૈલેશ વૈદ્ય, આનંદ સિંહા, નિરંજન હીરાનંદાની, ઉષા થોરાત અને મહેશ ઠક્કર