RBI raps NBFCs for faulty computation of capital

The Reserve Bank of India (RBI) on Monday said non-banking financial companies (NBFCs) must deduct investments made in group entities before arriving at net owned funds or NOF.

NOF means the aggregate of the paid-up equity capital and free reserves after deducting accumulated balance of loss, deferred revenue expenditure and other intangible assets.

The central bank's move is in the wake of finding that certain NBFCs did not consider their investment in group companies while arriving at the NOF figure.

RBI said in a communication to NBFCs that the contribution to the funds held by VCFs came primarily from NBFCs themselves. However, NBFCs argued that their investments in group companies were made by venture capital funds (VCF) sponsored by them.

RBI noted that in arriving at the NOF, the substance would take precedence over form. "NBFCs are advised to keep this principle in mind, always, while calculating their NOF."

In order to arrive at NOF, investments (shares, debentures) in subsidiaries, group companies and other financing are also considered.

RBI said that VCF or any such alternative investment fund (AIF) means a pool of capital by investors and the investment made by such an AIF is done on behalf of the investors.

While arriving at the NOF figure, investment made by an NBFC in entities of the same group concerns shall be treated alike - regardless of whether the investment is made directly or through an AIF or a VCF.

The rule is also applicable in cases where an NBFC has 50 per cent or more share in funds with VCF.

The ambit of rules also covers trusts where the beneficial owner is the NBFC, if 50 per cent of the funds is from this finance company. In such cases, "beneficial ownership" would mean holding the power to make or influence decisions in the Trust and being the recipient of benefits arising out of the activities of the Trust, RBI noted.

(Business Standard)