RBI withdraws rule exceptions for NBFCs owned by govt

The decision will ensure both types of NBFCs stand on an equal footing on compliance with specific RBI rules

The Reserve Bank of India (RBI) has ended the special dispensations granted earlier for non-banking financial corporations (NBFCs) owned by the government.

Instead, it has specified a roadmap, stretching till 2021-22, for these lenders to meet the norms on capital adequacy, provisioning and corporate governance. Among the entities affected are IFCI, Power Finance Corporation, India Infrastructure Finance Company, Indian Railway Finance Corporation, Indian Renewable Energy Development Agency and Housing & Urban Development Corporation.

“It has been decided to make the NBFC regulations applicable to government NBFCs, as per the timeline” provided in the new circular, states RBI’s notification.

Some of the changes that government NBFCs would now have to comply with include the treatment of income recognition, beside full provisioning for all non-performing assets. And, to implement corporate governance frameworks in line with those for private players and the Fair Practices Code by the end of this financial year.

NBFCs that were set up for catering to specific sectors may request RBI for exemptions, if any. The others must comply with rules on the concentration of credit or investments by the end of FY22. They have time till then for adhering to the rules on debt to equity leverage ratio.

Privately owned NBFCs have to maintain a minimum Capital to Risk Assets Ratio (CRAR) of 15 per cent, if Tier-1 capital is 10 per cent. By RBI’s notification, government NBFCs have to over the next four years raise their CRAR to this level, too, with Tier-1 capital at 10 per cent by 2022. Further, to maintain a minimum of 15 per cent of their outstanding deposits, in compliance with RBI’s existing statutory provisions. They may reach this minimum level by increasing the provisioning by five percentage points every year between FY19 and FY22, according to the roadmap provided.

The decision will ensure both types of NBFCs stand on an equal footing on compliance with specific RBI rules. Also, is the thinking, competition between the two types of ownership structures will intensify, subject to investors’ and the markets’ valuations.

(Business Standard)