Content list: An easy to read at-a-glance summary.

Banking on Non-Banking Finance Companies

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Foreword

For a large and diverse country like India, ensuring financial access to fuel growth and entrepreneurship is a critical priority. Banking penetration continues to be low, and even as the coverage is sought to be aggressively increased through programs like the Pradhan Mantri Jan Dhan Yojana, the quality of coverage and ability to access comprehensive financial services for households as well as small businesses is still far from satisfactory.

In this scenario, the Non-Banking Finance Companies (NBFC) sector has scripted a story that is remarkable. It speaks to the truly diverse and entrepreneurial spirit of India. From large infrastructure financing to small microfinance, the sector has innovated over time and found ways to address the debt requirements of every segment of the economy. To it's credit, the industry has also responded positively to regulatory efforts to better understand risks and to address such risks through regulations. Over time, the sector has evolved from being fragmented and informally governed to being well regulated and in many instances, adopted best practices in technology, innovation and risk management as well as governance.

There has been greater recognition of the role of NBFCs in financing India's growth in the recent past, even as global debates on systemic risks arising from non-banks have travelled to Indian shores and led to somewhat fundamental shifts in the policy environment governing NBFCs. Much public discussion and regulatory action later, clarity regarding goals and signposts of public policy have emerged. Scepticism about 'shadow banks' has settled to a more healthy understanding of the risks and rewards of a diverse financial system. For the industry, there are some costs associated with greater regulations, but the opportunity of being a well regulated participant in the financial system is likely to outweigh the costs in the long run. We believe that some shadow zones persist in the regulatory landscape, but there is enough clarity for NBFCs to define their way forward.

We congratulate The Associated Chambers of Commerce & Industry of India (ASSOCHAM) for taking this dialogue forward when the country is looking forward to capitalizing on its potential aggressively. Thanks are due to Amit, Varun, Dhawal, Bhumika and Aarti in the PricewaterhouseCoopers (PwC) team for compiling the report. We hope you will find it useful.

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Message from ASSOCHAM
– Secretary General

NBFCs are emerging as an alternative to mainstream banking. Besides, they are also emerging as an integral part of Indian Financial System and have commendable contributions towards Government's agenda of financial Inclusion. They have been to some extent successful in filling the gap in offering credit to retail customers in underserved and unbanked areas.

NBFCs in India have recorded marked growth in recent years. After their existence, they are useful and successful for the evolution of a vibrant, competitive and dynamic financial system in Indian money market. The success factors of their business has been by making the most of their ability to contain risk, adapt to changes and tap demand in markets that are likely to be avoided by the bigger players. Thus the need for uniform practices and level playing field for NBFCs in India is indispensable.

ASSOCHAM along with PwC have come out with this knowledge paper with the objective to contemplate the issues and challenges being faced by NBFCs (specifically considering the revised regulatory framework) and suggest measures that can be taken to optimize their contribution thereto.

We hope that this study would help the regulators, market participants, Government departments, and other research scholars to gain a better understanding on NBFCs role in promoting 'Financial Inclusion' for our country. I would like to express my sincere appreciation to ASSOCHAM-PwC team for sharing their thoughts, insights and experiences.

D.S. Rawat
Secretary General
ASSOCHAM

Message from ASSOCHAM
– Co-Chairman, National Council for NBFCs

NBFCs form an integral part of the Indian Financial System. They have been providing credit to retail customers in the underserved and unbanked areas. Their ability to innovate products in consonance to the needs of their clients is well established. They have played a key role in the development of important sectors like Road Transport and Infrastructure which are the life lines of our economy. This role has been well recognized and strongly advocated for, by all the Expert Committees and Taskforces setup till date, by Govt. of India & RBI. It is an established fact that many unbanked borrowers avail credit from NBFCs and over the years use their track record with NBFCs and mature to become bankable borrowers. Thus, NBFCs act as conduits and have furthered the Government's agenda on Financial Inclusion NBFCs are today passing through a very crucial phase where RBI has issued a revised regulatory framework with the objective to harmonize it with banks and Financial Institutions and address regulatory gaps and arbitrage. While the regulations, specially, asset classification norms have been made more stringent so as to be at par with banks, what is now required is to equip NBFCs with tools like coverage under SARFAESI Act to recover their dues and income tax benefits on provisions made against NPAs. This shall then bring the desired parity with banks and other financial institutions. Fund raising has increasingly become difficult and challenging, specially, for the large number of small and medium sized NBFCs.

It is indeed a matter of great pleasure that ASSOCHAM along with PwC and with valuable support from Finance Industry Development Council (FIDC), has prepared this knowledge paper highlighting the key areas of concern for the sector and the future prospects. I hope this study shall pave the way for a healthy growth of this important sector of our economy so as to further the vision of our dynamic Prime Minister of "Sabka Saath, Sabka Vikas".

Raman Aggarwal

Co-Chairman
ASSOCHAM National Council for NBFCs

Analysing the Revised Regulatory Framework for NBFCs

Background

The roller coaster liquidity ride post the global financial crisis witnessed Indian NBFCs facing a predicament. Many of them had a favorable business opportunity to convert the available liquidity into short-term, profitable assets as the banking system and infrastructure-focused NBFCs dealt with asset quality issues. On the other hand, global regulatory attention on shadow banks brought the spotlight on their operations, governance, liquidity management and most of all, linkages with the banking system.

Although the impact of the global financial crisis on India was limited, it left its marks on the regulatory psyche. Prior to this, the NBFC regulation had evolved in phases. Some phases were marked with great benevolence, such as the registration of all entities with minimum capital and priority sector benefits to portfolio origination for banks. In contrast, some were marked with adverse business impact, such as restricting the flow of funds from banks to NBFCs and expression of displeasure with 'high growth' and concerns of systemic risks. The Working Group under the Chairmanship of Smt. Usha Thorat (hereinafter referred to as the 'Thorat Committee) and the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households under the Chairmanship of Dr. Nachiket Mor (hereinafter referred to as the 'Mor Committee') were landmarks in aggregating concerns and issues and throwing up ideas and recommendations for discussions.

In this context of high anxiety levels, the final guidelines released in November 2014 by Reserve Bank of India (RBI) came as a polite regulatory action. Few hoped for retaining the status quo on classification of non-performing assets (NPA). Even to them, the extended implementation timelines and one-time restructuring exemption will lessen the pain.

Apart from being a milestone in the NBFC regulations, these guidelines also mark an interesting shift in the regulatory approach-that of activity-based regulation. The NBFC sector has created for itself the type of differentiation that was not possible within the universal banking construct. The sector is thus, marked by remarkable diversity of players and businesses that act as an effective layer of financial intermediation between the informal sector of the economy and the formal sector of finance. NBFCs can claim credit for converting many Indians to first time users of formal, regulated financial system.

In the process, they have played a meaningful role in shaping borrower behavior, collecting credit related data and deepening the footprints of finance where data and information can be accessed by regulators and policymakers as well as other market participants.

NBFC regulation, on the other hand, deriving broadly from the banking framework, has been tweaked over time to ensure as good a fit as possible. The other pressure on the regulatory approach has been the desire to conform to global standards, even when the Indian economy and the demands of the services led, diverse, informal economy have been very different from the global counterparts. This tension, between a highly differentiated sector and the natural tendency of regulation to drive to standards goes to the core of the challenge of NBFC regulation in India. In what can be described as an optimal outcome, the final guidelines have addressed many fault lines without running into legal wrangles or creating widespread pain to participants.

The segmentation of the market on deposit acceptance, customer interface, and liability structure and consumer protection not only aligns regulation to current realities, but also sets the direction of future growth, likely to be synchronized with regulatory perception of risk. For example, capping leverage of non-systemically important NBFCs, while also exempting them from the Capital Risk Adequacy Ratio (CRAR), credit concentration norms and revised NPA norms, will gradually lead to business models that can balance that opportunity and constraint. Hopefully, the implementation of this risk-based framework will also close the discussion on `regulatory arbitrage' since major arbitrage opportunities are getting addressed through harmonising minimum capital benchmark, setting one threshold for systemic importance and making it applicable on a group basis. Similarly, deposit accepting NBFCs (NBFCs-D) and asset finance companies (AFCs) get broadly aligned on deposit cap and rating requirements. Further, credit concentration norms for AFCs are aligned with those applicable to systemically important NBFCs (NBFCs-ND-SI) and of course, the NPA classification and provisioning guidelines are harmonised.

Another good move is resisting the formalisation of NBFC classes. The unique advantage of the NBFC business is the ability to adapt to market demand conditions. Formal categories, in the absence of any regulatory benefit attached to them, create barriers. Diluting the NBFC-Factor asset-income requirement to 50% and not placing restrictions on Captive NBFCs are all welcome. The other advantage of the approach is the continued ability of regulators to address any temporary issues through activity-based regulation or guidance.

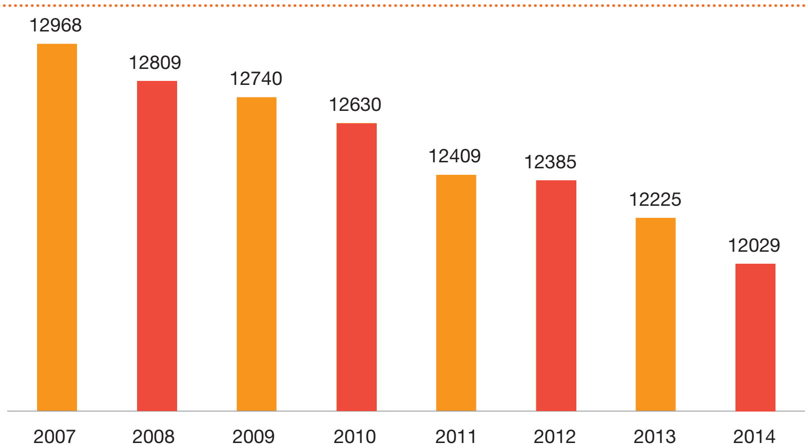
A few niggling issues remain. The debate on whether a Core Investment Company (CIC) is or is not an NBFC rages on. Interestingly, with no more credit concentration norms for non-deposit accepting NBFCs that are not systemically important (NBFCs-ND), group holding companies may have an incentive to continue as NBFCs and not get classified as CIC, given that the leverage cap is higher for such NBFCs compared to CICs (although defined differently under the two regulations). The Foreign Direct Investment (FDI) definition of an NBFC is still not aligned with the RBI definition, causing pain to foreign investors in the sector specifically in terms of investment activity.

This paper presents an analysis of the historical and current framework of NBFC regulations and examines some of the issues in detail. It also discusses the current business scenario and looks at some of the outstanding issues facing the sector. The discussion closes with a broad look at the way forward for NBFCs.

Evolution of the regulatory framework for NBFCs

In 1964, Chapter III B of the Reserve Bank of India Act, 1934 was introduced to regulate NBFCs-D. Various expert committees – the most noteworthy being the Narasimham Committee and the Working Group on Financial Companies chaired by Dr. A. C. Shah – were formed to evaluate and provide their inputs on the role of NBFCs in the financial sector, their growth potential, and the regulatory changes that could be introduced to bridge the inefficiencies / gaps in the sector. Many of the recommendations of these committees were gradually interwoven into the fabric of the regulations for the NBFC sector.

Figure 1: Number of NBFCs registered with RBI



Source: RBI reports

With NBFCs emerging as an important segment closely connected with other entities in the financial sector coupled with the failures of several large NBFCs, a more comprehensive and enhanced framework was put into place by the RBI by way of the introduction of prudential norms in 1996. In 2007, the RBI demarcated deposit accepting and non-deposit accepting NBFCs and separate prudential norms were issued.

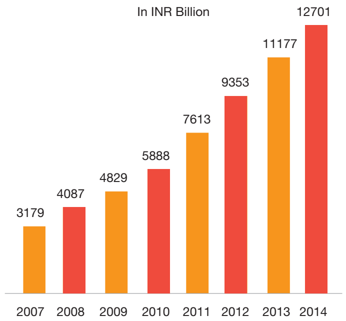
The NBFC sector in India has undergone a significant transformation over the past few years and has come to be recognised as a systemically important component of the financial system. NBFCs are now closely interconnected with entities in the financial sector and may be exposed to risks which could impact the NBFC sector as well as other participants in the financial sector.

The NBFC segment has witnessed consolidation over the recent past (especially in the NBFC-ND-SI segment) as indicated by the total number of registered NBFCs with the RBI witnessing a consistent year on year decline against the overall growth in their assets over the same period.

NBFCs asset growth and composition of advances

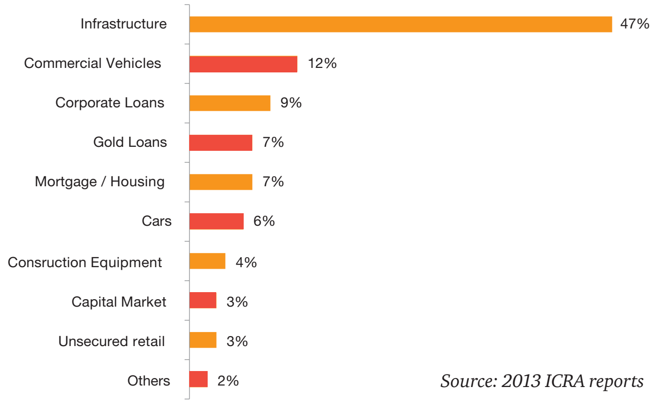
NBFCs have grown rapidly in India and that is reflected from their asset growth pattern over the years. NBFCs, over a period, have created product niches in sectors like infrastructure finance, automobile finance, gold loans, personal finance and capital markets.

Figure 2: Asset Growth of NBFCs-ND-SI



Source: Financial Stability Report (Including Trends and Progress of Banking in India 2013-14)

Figure 3: Composition of NBFC advances

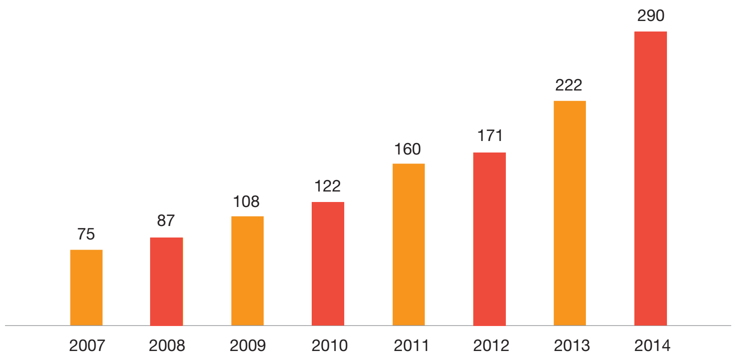


Source: 2013 ICRA reports

NBFC profitability and Non-performing asset growth

The NBFC sector has shown a consistent year-on-year growth in net profits over the last few years. The effects of the market recovery are evident especially in the year 2014. With the Government and RBI's increased focus on financial inclusion, one could expect a continued growth run in the near future.

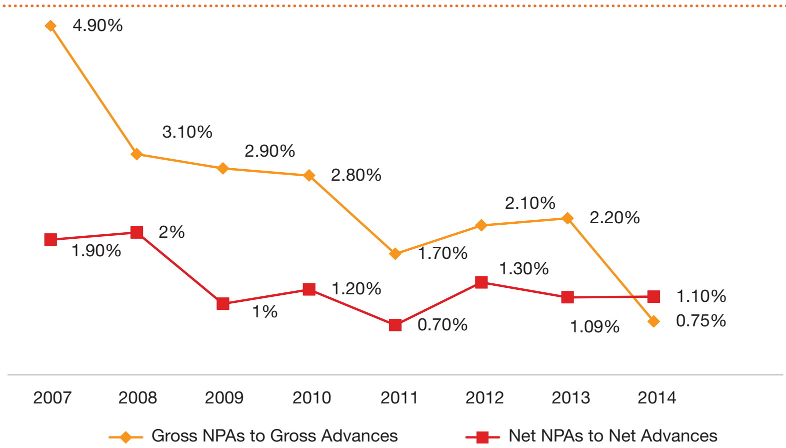
Figure 4: Net profit growth of NBFCs-ND-SI (INR Billion)



Source: Financial Stability Report (Including Trends and Progress of Banking in India 2013-14)

NBFCs-ND-SI were also witnessing a stress in the asset quality over the last 3-5 years due to economic slowdown and weak operating environment. The increased positivity in the business environment can be evidenced by the significant drop in the NPA levels in 2014. However, given the fact that asset classification norms have been strengthened in the revised regulatory framework, one could expect to see higher NPA levels in the upcoming years.

Figure 5: Non-performing asset growth of NBFCs-ND-SI



Source: Financial Stability Report (Including Trends and Progress of Banking in India 2013-14)

Banks and NBFCs – Inter-connectedness and inter-linkages

Size and Market Share

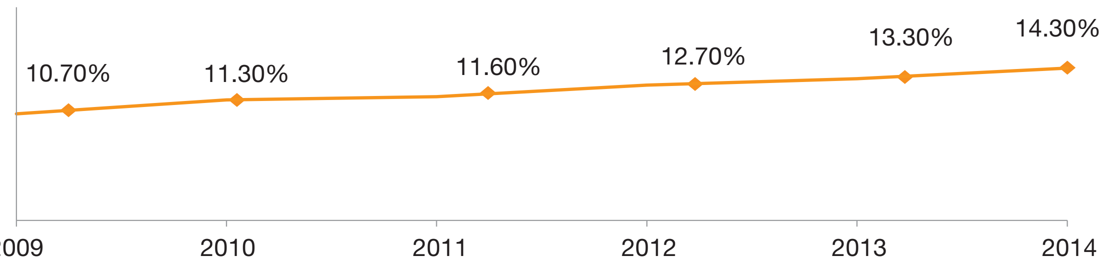
NBFCs have steadily grown in number and market share, indicating the success of their business models and the opportunities/potential in their target markets.

The share of NBFCs has steadily grown from 10.7% of banking assets in 2009 to 14.3% of banking assets in 2014, thus gaining systemic importance. On the assets side, the share of NBFCs' assets as a proportion of Gross Domestic Product (GDP) at current market prices has increased steadily from 8.4% in 2006 to 12.5% in 2013.

The exhibit below capture the growth trend of NBFCs vis-à-vis banks.

Figure 6: Proportion of NBFC assets to Bank assets

Source: CARE Ratings Report on NBFC sector dated December 05, 2014



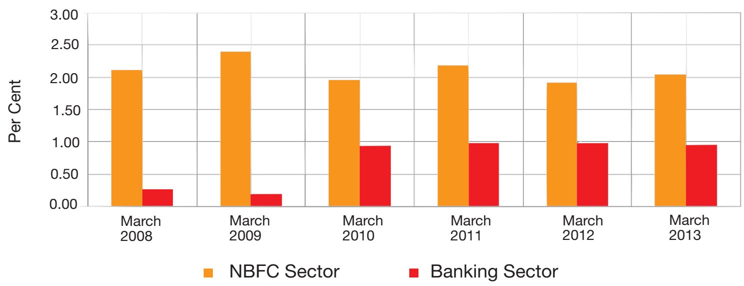
Profitability

Return on Assets of NBFCs-ND-SI has shown stability with figures ranging around 2% since 2008.

The Return on Assets for NBFCs is typically higher than that for banks on account of lower operating costs and no statutory requirements like Statutory Liquidity Ratio and Cash Reserve Ratio.

The graph below shows the profitability of NBFCs vis-à-vis banks.

Figure 7: Trends in Returns on Assets — NBFCs vis-a-vis Banks



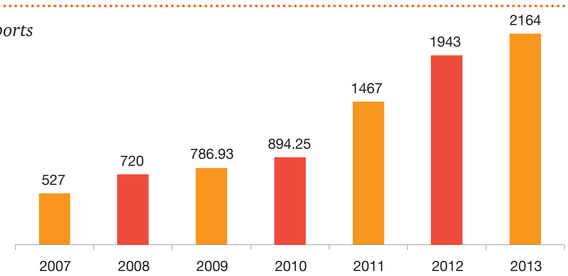
Source: Speech delivered by Shri P Vijaya Bhaskar, Executive Director, Reserve Bank of India, at the National Summit on Non-Banking Finance Companies – Game Changers' on January 23, 2014 at New Delhi

Growing bank advances to NBFCs

Banks have been a major funding source of NBFCs and the rapid growth in bank advances reflects an increasing dependency of NBFCs on leverage from banks. The graph below depicts the growth in bank advances obtained by NBFCs over the last seven years. The increasing inter-linkage between banks and NBFCs has spurred the RBI to introduce additional safeguards to contain systemic risks.

Figure 8: Growth of bank advances to NBFCs-ND-SI (INR billion)

Source: 2013 RBI reports



> *"The growing reliance of NBFCs on bank funding could place a strain on the banks if NBFCs were to deleverage under conditions of stress.*
>
> *NBFCs themselves could also face difficulties if banks were to become reluctant to lend to them in case of a liquidity crunch."*
>
> **– Financial Stability Board (FSB)**

Journey So Far

The aftermath of the financial crisis highlighted the importance of increasing the scope of NBFC regulations to account for the risks that arise from regulatory gaps, arbitrage opportunities and from the linkages and inter-dependence of the NBFC sector with the rest of the financial system. There was a need to harmonise the entire framework so that the objectives of the RBI could be met in an efficient way, while ensuring that the impact on business and at the same time, the impact on business operations remained minimal or was phased over time.

In light of this, the RBI in March 2011, constituted the Thorat Committee to examine the risks in the NBFC sector and recommend appropriate measures to address these risks with the aim of creating a robust financial sector.

Figure 9: Key recommendations of the Thorat Committee

Transition mechanism

All NBFCs	Achieve the Principal Business criteria (PBC) within 2 years with prescribed milestones (March 2014 - 65% and March 2015 - 75%)
NBFC-ND	If applicable, approach RBI with plan to achieve INR 25 crore in assets within 2 years
NBFC-D	Achieve 75% PBC threshold by March 2015 else banned from raising deposits / repayment of deposits

Asset classification and provisioning norms	• To be made similar to that as applicable to banks • Implementation in phases • Standard assets provisioning raised from 0.25% to 0.40%
Recovery norms & liquidity requirements	• Maintenance of high liquid assets; no liquidity gap in 1-30 day bucket • Extension of SARFAESI framework
Corporate Governance of NBFC	• Prior RBI approval for: – Any change in control or increase in shareholding greater than 25% of equity – Mergers and acquisitions – Appointment of CEO • Fit & proper criteria for directors • Remuneration committee for compensation to executives • Enhanced disclosure requirements
Tier 1 capital adequacy & Risk Weights	• NBFCs having exposure to sensitive sectors namely, capital market, commodities and real estate to maintain Tier 1 capital at 10% • Captive NBFCs – minimum 12% of Tier I Capital • Higher risk weights of 150% for capital market exposures and 125 % for commercial real estate exposures
Multiple NBFCs in a Group	• Assets to be aggregated for registration and regulation

The Thorat Committee report proposed a revised classification scheme concomitant with stringent capital adequacy, liquidity, provisioning and corporate governance norms

The RBI had in September 2013 set up the Mor Committee which was tasked with laying out clear and detailed vision for financial inclusion and financial deepening in India, including a set of design principles, reviewing existing strategies and developing new ones as well as developing a comprehensive monitoring framework to track the progress of the financial inclusion and deepening efforts nationwide.

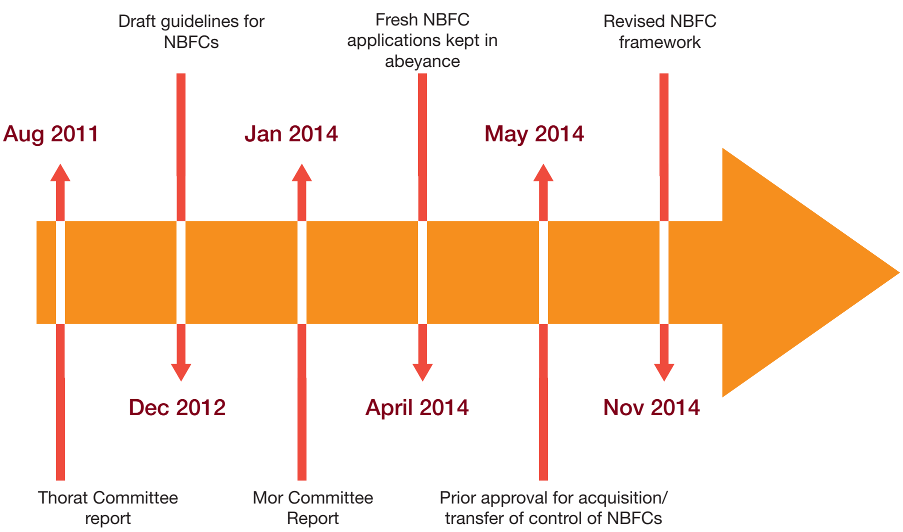
Figure 10: Key recommendations of the Mor Committee

Structure complexity	• Consolidation of NBFCs into 2 categories – (i) Core Investment Companies, and (ii) other NBFCs • Availability of benefits such as tax benefits, bank limits or priority sector status to continue based on pro-rata asset basis
Funding and credit needs	• Systematic addressing of wholesale funding constraints • Clear framework for investors to participate in debt market issuances of NBFCs • Access to refinance schemes • Low capitalisation requirements for foreign owned NBFCs
Risk measurement and disclosure	• Mandatory adoption of core banking and disclosure of stress test • NPA recognition and provisioning norms (including for standard assets) to be specified based on level of each asset class
Transition to differentiated and national banks	• Mandatory adoption of core banking and disclosure of stress test • Specific barriers preventing smooth transition of NBFCs into Wholesale/ National bank to be removed

A diagrammatical representation of the sequence of events that led to the overhaul of the NBFC regulatory framework is shown alongside.

Based on recommendations made by the Thorat and Mor Committee and the feedback received, the RBI issued draft guidelines for the NBFC sector for public comments in December 2012. With a view to avoiding disruption in the sector, the RBI proposed ample transition time to bring the new regulatory framework into existence. Taking into account most of the recommendations, the draft guidelines proposed changes with respect to entry point norms, principal business criteria, prudential regulations including asset classification and provisioning norms, liquidity requirements for NBFCs and corporate governance.

Figure 11: Timeline for overhaul of the NBFC regulatory framework



Revised regulatory framework

On November 10, 2014, RBI released the revised regulatory framework[1] which is centred on the following objectives:

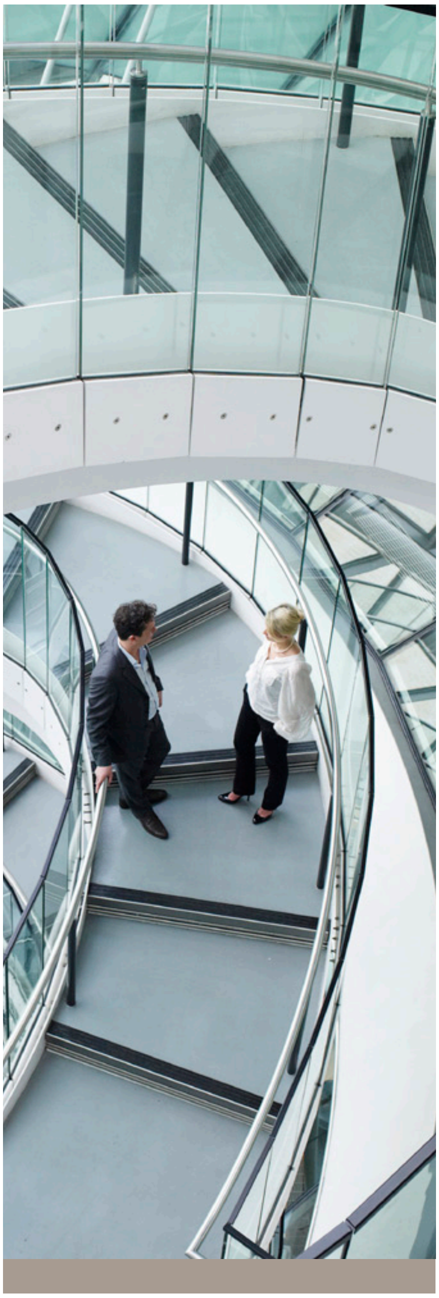
- Harmonising and simplifying regulations to make compliance easier;
- Focussing on activity based regulation without impeding those segments within the sector which do not pose any significant risks to the wider financial system;
- Addressing risks and regulatory gaps wherever they exist; and
- Strengthening the governance and disclosure standards.

The revised regulatory framework is applicable to all NBFCs except to NBFCs registered as primary dealers. With respect to Microfinance NBFCs and CICs, their extant regulations shall prevail wherever they are in conflict with the revised regulations.

Under the revised regulatory framework, it has been stated that all NBFCs need to comply with the revised prudential norms, if applicable, in a phased manner in accordance with the prescribed timelines. In line with its commitment made when releasing the draft guidelines in December 2012, the RBI has ensured that almost all regulatory changes are implemented in a phased manner so that there are no sudden disruptions to business.

Minimum net owned funds of Rs. 2 Crores for all NBFCs

Under the extant law, all NBFCs registered after April 21, 1999 are required to have minimum net owned funds (NOF) of Rs.2 crore. However, a large number of NBFCs which were registered prior to that date were permitted to continue to maintain minimum NOF of Rs.25 lakh. It is apparent that NBFCs with a minimum capital below Rs.2 crore are likely to be carrying out very limited business activities, if any. Considering that a higher NOF would be required for the adoption of advanced technology and to ensure a sufficient capital base for the diverse activities conducted by NBFCs, the minimum NOF of Rs.2 crore is now being made mandatory for all NBFCs, whether registered prior to or post April 21, 1999 . All NBFCs are required to attain a minimum NOF level of Rs.1 crore by the end of March 2016 and Rs.2 crore by the end of March 2017.



The notification amending the extant regulations is yet to be issued by the RBI. There is apprehension as regards the date from which certain regulations have to be complied with, in particular where specific timelines have not been prescribed. The RBI notification probably should clarify this aspect.

[1] *Circular No. DNBR (PD) CC.No.002/3/0/001/2014-15 dated November 10, 2014*

Threshold and Activity Based Categorisation

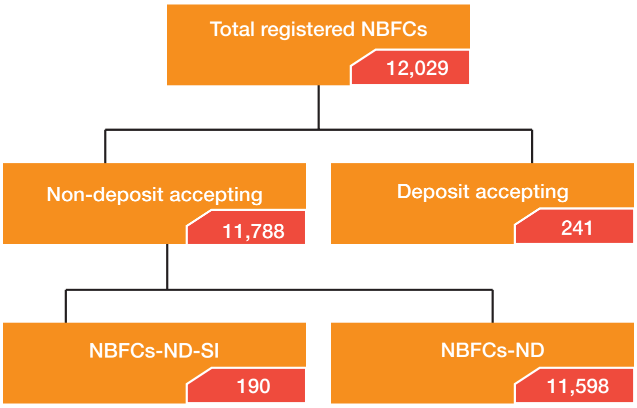
The phenomenal growth in the NBFC sector along with its increasing inter-linkage and inter-dependence with other financial institutions has prompted the introduction of stringent regulations in order to contain the risks. This has included regulation by the RBI even of NBFCs which do not pose a high systemic risk to the financial sector. On the other hand, introducing light touch regulation could lead to disrupting factors remaining unnoticed, resulting in unintended consequences for the financial system. Under the existing regulations, NBFCs were categorised into the following three groups, primarily for administrative purposes:

- Depositing accepting NBFCs
- Non-deposit accepting NBFCs with assets of less than Rs.100 crore
- Non-deposit accepting NBFCs with assets of Rs.100 crore and above

Aiming to strike a balance between under-regulation and over-regulation in the sector, the RBI has increased the threshold asset size for an NBFC to be considered systemically important (NBFC-ND-SI) from Rs.100 crore and above to Rs.500 crore and above[2]. Furthermore, a simplified framework for light touch regulation has been put into place for NBFCs which are not systemically important (NBFCs-ND) i.e. NBFCs having total assets less than Rs.500 crore.

As of March 31, 2014, there were 12,029 registered NBFCs of which 241 were deposit-accepting NBFCs. Among the non-deposit accepting NBFCs, 465 NBFCs had assets of Rs.100 crore and above, 314 NBFCs had assets between Rs.50 crore and Rs.100 crore and 11,009 entities had assets of less than Rs.50 crore.

Figure 12: Broad NBFC categories



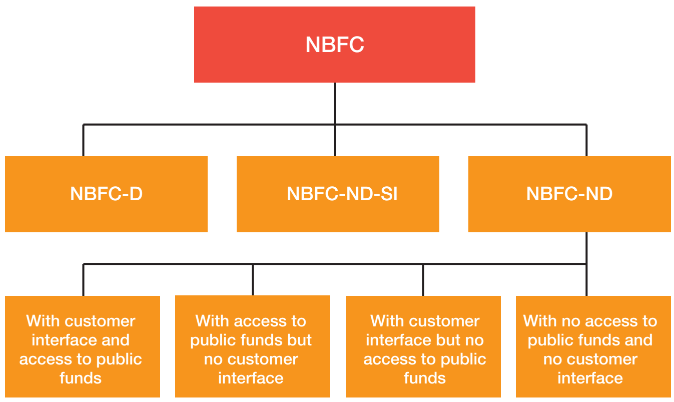
Source: Speech delivered by Shri R. Gandhi, Deputy Governor, RBI on November 23, 2014

Based on the modified threshold of Rs.500 crore, around 11,598 out of the total 12,029 registered NBFCs would be considered as non-systemically important NBFCs. Therefore, majority of the NBFC sector will be covered by the simplified framework. Around 275 entities which were hitherto NBFCs-ND-SI, will now be classified as NBFCs-ND and therefore be subject to less stringent regulations. This will also help create some bandwidth within the RBI to direct greater regulatory focus onto NBFCs with larger asset size.

Hitherto, regulations were prescribed for NBFCs depending on whether they were systemically important or otherwise. Depending on their classification, each NBFC had to comply with the full gamut of regulations such as detailed prudential norms, the Fair Practices Code, Know Your Customer (KYC) norms, return filings, etc., leading to an enhanced compliance burden on NBFCs with specific business activities. For example, under the earlier regulations, an NBFC engaged exclusively in the business of investing in shares was also required to adopt the Fair Practices Code and put KYC policies in place. The revised regulatory framework has addressed this aspect by categorising NBFC-NDs based on their access to public funds and customer interface.

Broadly, under the revised regulatory framework, NBFCs will get categorised and further sub-categorised in the following manner:

Figure 13: Revised Regulatory Framework



[2] *Proposed to be Rs.1,000 crore in the Thorat Committee report and the draft NBFC guidelines*

Aggregation of assets of multiple NBFCs in a group

The Thorat Committee had proposed that multiple NBFCs that are part of a single corporate group[3] or are floated by common set of promoters should not, for regulatory and supervisory purposes, be viewed on a stand-alone basis, but should be viewed in aggregate. In line with the recommendation, the revised regulatory framework provides for the aggregation of the total assets of all NBFCs in a group (including NBFCs-D) to determine the categorisation and supervision of an NBFC as an NBFC-ND or NBFC-ND-SI. If the combined asset size of all NBFCs within the group is Rs.500 crore or more, each NBFC in the group would have to comply with the regulations applicable to an NBFC-ND-SI.

Under the revised framework, the total assets of NBFCs in a group including deposit-accepting NBFCs, if any, are to be aggregated to determine if such consolidation results in each NBFC of the group being categorised as NBFC-ND or NBFC-ND-SI.

The RBI framework excludes NBFCs registered as primary dealers from the provisions of the revised framework since the business activity of a primary dealer is entirely different from a lending/investment NBFC. However, no specific exclusion is provided for aggregation of NBFCs registered as primary dealers within the group. Similarly, in the case of CICs investing in NBFC subsidiaries, aggregation of funds within the group could result in the same funds being aggregated twice.

Will assets of CICs and NBFCs registered as primary dealers in the group also need to be aggregated? It would be useful if RBI clarifies this aspect.

Further, no specific time period has been provided for compliance by NBFCs-ND (within a group) impacted by these provisions. Timeline to be prescribed for smooth transition and effective compliance.

Practical difficulties could arise in implementing the statutory auditor certification requirement. A possible alternative could be to accept a certificate from any independent Chartered Accountant for certifying the asset size of all NBFCs in a group.

For the purpose of aggregating the assets of all NBFCs in a group, Statutory Auditors need to certify the asset size of all the NBFCs in a group. In a scenario where there are different auditors for different NBFCs in the same group, the respective auditor of any particular NBFC may not be in a position to certify the asset size of other NBFCs in the group, thereby creating practical difficulties.

[3] *"Companies in the group" is defined to mean an arrangement involving two or more entities related to each other through any of the following relationships:*

- *Subsidiary – parent [defined in terms of Accounting Standard (AS) 21]*
- *Joint venture (defined in terms of AS 27)*
- *Associate (defined in terms of AS 23)*
- *Promoter – promote as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997 for listed companies,*
- *Related party (defined in terms of AS 18)*
- *Common brand name, and*
- *Investment in equity shares of 20% and above*

Revised Regulations for NBFCs-ND

Access to public funds and customer interface

As a principle, under the revised regulatory framework, NBFCs-ND need to comply with limited prudential norms only if they have access to public funds. Further, they need to comply with conduct of business regulations only if they have a customer interface. Limited prudential norms would essentially include all extant prudential norms other than capital adequacy norms and credit concentration norms.

NBFCs-ND	Customer Interface	No Customer Interface
Public Funds [4]	Compliance with limited prudential norms and conduct of business regulations [5]	Compliance only with limited prudential norms
No Public Funds	Compliance only with conduct of business regulations	Not subject to prudential norms or conduct of business regulations

The regulations covered under 'Conduct of business regulations' have not been separately defined and the notification should clarify this aspect.

Under the earlier NBFC prudential norms, the term "public funds" was defined to include funds raised either directly or indirectly through public deposits, commercial papers, debentures, inter-corporate deposits and bank finance. As a measure of further liberalisation, the definition of public funds has been amended to exclude funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue".

The revised regulations define public funds to include funds raised either **directly or indirectly** ……".

The meaning of the term "indirectly" still remains unclear and could be subject to varied interpretations. For example, if the Parent Co. (which is not an NBFC/CIC) accesses public funds and infuses them into its NBFC Subsidiary Co. as debt (or any other instrument qualifying as public funds), this should qualify as indirect access to public funds. However, it needs to be clarified, for example, whether the following two scenarios would or would not be construed to be indirect access to public funds:

- A Parent Co. (not an NBFC/CIC) accesses public funds but infuses them as equity into the NBFC subsidiary
- Parent Co. (not an NBFC/CIC) infuses its own funds in its subsidiary NBFC by way of debt or debt instrument

Leverage Ratio

The revised regulatory framework has introduced a new concept of the Leverage Ratio as part of the limited prudential norms, which will be applicable to all NBFCs-ND that are subject to limited prudential norms. Such NBFCs-ND need to ensure a leverage ratio of 7 (i.e. total outside liabilities do not exceed 7 times their owned funds). This additional requirement would link the asset growth of such NBFCs to the capital they hold.

Considering that access to public funds would now be relevant to determine the applicability of prudential norms, it becomes imperative that the meaning of the term 'indirect access' be appropriately clarified through illustration to provide clarity.

For the purpose of leverage ratio, the term 'Outside Liabilities' is not defined in the RBI circular in which it has been introduced. There is no such definition even under the current NBFC (Non-Deposit Accepting) Companies Directions, 1997. The Core Investment Companies (Reserve Bank) Directions, 2011 (CIC regulations) do define Outside Liabilities to mean "total liabilities as appearing on the liabilities side of the balance sheet, excluding 'paid up capital' and 'reserves and surplus', instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue but including all forms of debt and obligations having the characteristics of debt, whether created by issue of hybrid instruments or otherwise, and value of guarantees issued, whether appearing on the balance sheet or not".

Simplified reporting

It is provided that NBFCs-ND, including investment companies, will be required to submit only a simplified annual return, the details of which are yet to be notified. This is a welcome move as it will substantially reduce the compliance burden on these NBFCs, and at the same time keep the regulator aware of the activities of such companies.

The term 'outside liabilities' needs to be defined for the purpose of calculating the leverage ratio. The definition provided under the CIC regulations could be considered in order to harmonise both the regulations.

[4] *"Public Funds" includes funds raised directly or indirectly through public deposits, commercial papers, debentures, inter-corporate deposits and bank finance,*
but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue

[5] *The term "Conduct of business regulations" is stated to include Fair Practices Code, KYC, etc. but has not been defined*

Revised Regulations for NBFCs-ND-SI

Increased Tier I Capital for Capital Adequacy purposes

For the NBFCs-ND-SI, the minimum Tier I Capital has been increased to 10%. This is to be achieved in a phased manner i.e. 8.5% by the end of March 2016 and 10% by the end of March 2017.

The definition of public funds under the revised NBFC framework specifically excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue. Since the framework excludes instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue from the definition of public funds, it needs to be understood whether the intent is to consider such instruments as part of the owned funds. If so, the definition of owned funds[6] and Tier I capital[7] could be appropriately modified to include such instruments.

Instruments compulsorily convertible into equity shares within a period not exceeding 5 years excluded from the definition of public funds. In such a scenario, could such instruments be specifically included in the owned funds?

Credit Concentration norms

Credit concentration norms for NBFCs-ND-SI remain unchanged, except in the case of AFCs where the same are now brought in line with other NBFCs.

Alignment of asset classification and provisioning norms with those applicable to banks

The asset classification norms for NBFCs-D and NBFCs-ND-SI have been aligned with those applicable to banks by moving from the 180-day norm to a 90-day norm. The revised asset classification norms are summarised in the table below:

	Non-Performing Assets		Sub-standard Assets - as NPA for a period not exceeding	Doubtful Assets - Asset has remained sub-standard for a period exceeding
	Loan assets to become NPA if overdue	Lease Rental and Hire to become NPA if overdue		
March 2016	5 months	9 months	16 months	16 months
March 2017	4 months	6 months	14 months	14 months
March 2018	3 months	3 months	12 months	12 months

Similarly, the provision for standard assets has been enhanced from 0.25% to 0.40% of value of the standard assets to bring it into line with banks. Compliance with the revised norm is to be achieved in a phased manner by the end of March 2018.

While the above change is likely to have an impact on the profit margins of NBFCs and will enhance their cost of operations, it is pertinent to note that the increased provision is an accounting adjustment. NBFCs will not need to initiate delinquency proceedings against the borrowers just because the loan is classified as an NPA. Further, only around 190 NBFCs (which are NBFCs-ND-SI) would be impacted by these provisions out of which many NBFCs, especially foreign owned groups, in any case generally follow stricter norms based on their internal policies.

[6] *"owned fund" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account, and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any.*

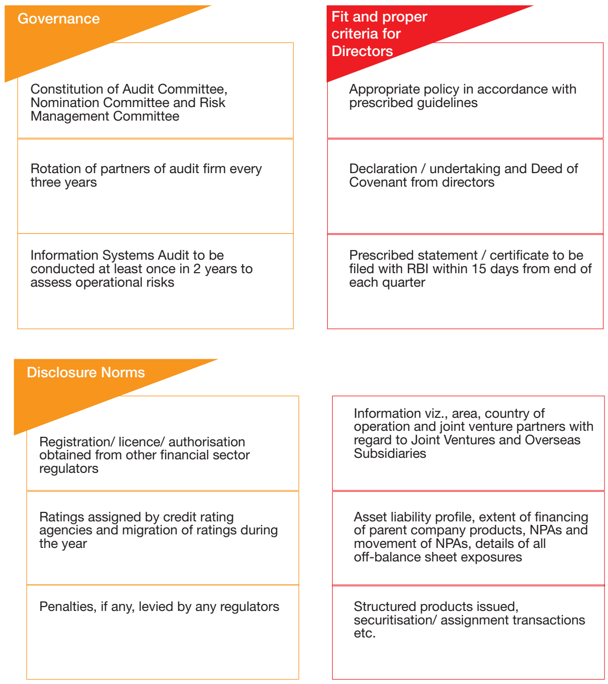
[7] *"Tier I capital" is defined to mean owned funds as reduced by investment in shares of other NBFCs and in shares, debentures, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate ten percent of the owned fund.*

Strengthening the Corporate Governance and Disclosure Norms

In line with the recommendations of the Thorat Committee set up to study the issues and concerns in the NBFC sector and considering the need for good corporate governance practices, the following amendments have been made to the existing regulatory framework on Corporate Governance and Disclosures for NBFCs.

Under the revised guidelines the RBI has tightened the corporate governance and disclosure norms for NBFC-D and NBFC-ND-SI. Certain requirements, such as the rotation of audit partners, the constitution of Nomination and Risk Management Committee which under the erstwhile regulations were only recommendatory in nature have now been made mandatory in the case of NBFC-D and NBFC-ND-SI.

Figure 14



Revised Regulations for NBFCs-D

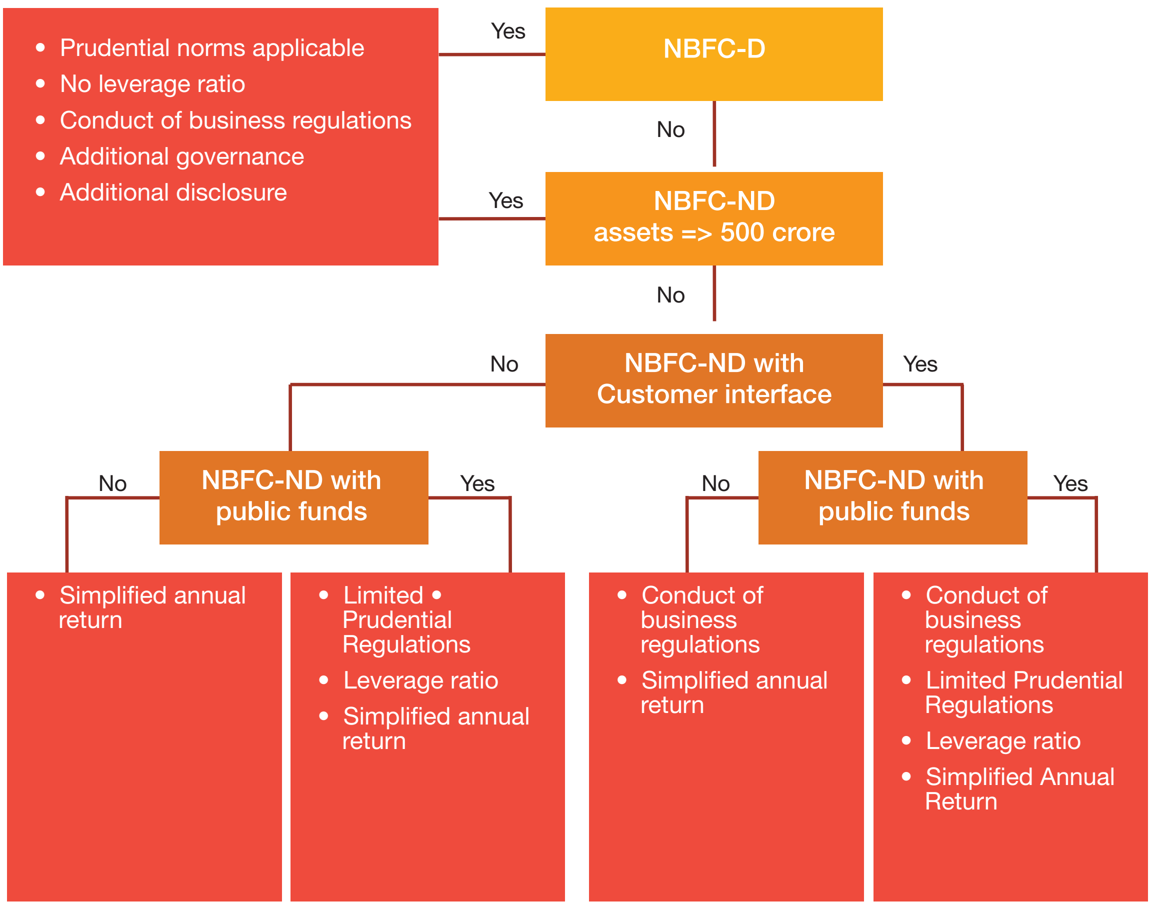
Regulations for NBFCs-D will be similar to those applicable to NBFCs-ND-SI, as protection of depositors is a key concern of the RBI. The extant norms as applicable to the NBFCs-D will continue to apply.

Mandatory rating and limits on deposit-acceptance

Hitherto, the regulatory regime for deposit-accepting AFCs was comparatively less stringent than for other deposit-accepting NBFCs. Even unrated AFCs were allowed to accept public deposits. Furthermore, deposit accepting AFCs also enjoyed higher limits for deposit acceptance and credit concentration. However, the regulations for AFCs have now been brought in line with those for other deposit-accepting NBFCs. Existing unrated AFCs would now have to obtain an investment grade rating by March 31, 2016 to be allowed to accept deposits. In the intervening period to March 31, 2016, unrated AFCs or those with sub-investment ratings can only renew existing deposits on maturity and cannot accept fresh deposits until they obtain an investment grade rating.

The limit for acceptance of deposits by deposit accepting AFCs has been reduced from 4 times to 1.5 times the net owned funds.

Figure 15: Summary of the revised NBFC regulatory framework



Change in management or control of NBFCs

The Thorat Committee recommended that the requirement to obtain prior approval from the RBI for a change in management or control be extended to NBFC-ND which was considered and incorporated into the draft guidelines issued by the RBI. All of this culminated in the issuance of the Non-Banking Financial Companies (Approval of Acquisition or Transfer of Control) Directions, 2014[8] [herein after referred to as 'Change in Control Directions'] – a step towards ensuring that all NBFCs are managed by 'fit and proper' management. The Change in Control Directions were issued by RBI in May 2014 prior to issuance of the revised regulatory NBFC framework.

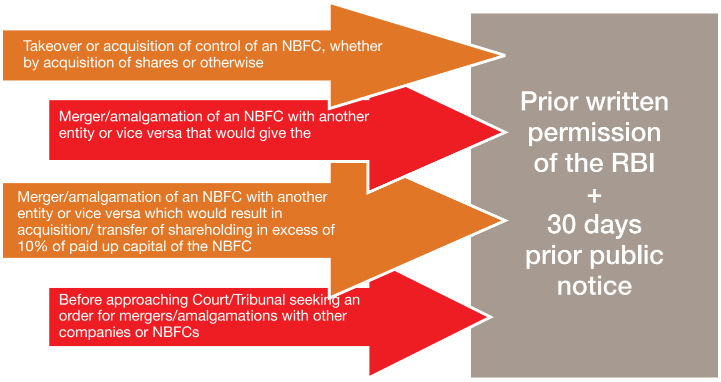
Erstwhile provisions

The erstwhile provisions for change in management or control were stringent for NBFC-D requiring prior written RBI approval whereas in the case of NBFC-ND only intimation with the regional office of the RBI was required.

Rationale

One of the key parameters that the RBI considers when granting a Certificate of Registration (CoR) to a company for undertaking business as an NBFC is the general character of the management or the proposed management of the NBFC to ensure that it is not prejudicial to the public interest or the interests of depositors. Thus to enable the RBI to ensure continuous maintenance of the 'fit and proper' character of the management of NBFCs, both prior to and post change in control, the RBI released the Change in Control Directions.

Figure 16: Revised framework



Areas requiring clarity

There is some ambiguity surrounding the following aspects of the Change in Control Directions that would result in operational challenges and delay in timelines unless clarified by the RBI.

If "Control" is considered as the operative word of the Change in Control Directions

The Change in Control Directions cover every case where there is change in control based on the definition prescribed under the SEBI (Substantial Acquisition of Shares and Takeovers), Regulations 2011 (SEBI Takeover Code). If control is to be considered as the operative word, then an acquisition / transfer of control would be the pre-requisite for triggering the requirement of prior RBI approval. Accordingly, any acquisition or transfer of shareholding without a corresponding transfer of control should not require prior RBI approval. The following transactions should not require RBI approval at the time of initial acquisition as there is no change in management or control:

- *Acquisition of equity shares without a corresponding acquisition / transfer of control; and*
- *Acquisition of convertible instruments (e.g. compulsorily convertible preference share)*

It is imperative to understand the focus of the Change in Control Directions (Control Vs. Shareholding) in order to correctly apply the framework to situations that are proposed to be covered by the RBI

[8] DNBS (PD). C. No.376/03.10.001/2013-14 dated May 26, 2014

Applicability where the ultimate control remains unchanged

It is unclear whether the Change in Control Directions will apply to cases where there is no change in control at an overall group level or there is a change but control remains amongst the existing shareholders of the NBFC. Prior approval in this scenario would impact timelines on transactions such as:

- *Internal group restructurings where the ultimate control stays within the group; or*
- *Transfer of shareholding inter-se by existing shareholders of the NBFC (already having control prior to the change)*

In cases where control stays within the same group, the RBI would have already undertaken a detailed due diligence and the group would ideally be in compliance with the 'fit and proper' criteria; and there is no effective change in control or management of the NBFC.

Transactions where the ultimate control remains status quo should be excluded from the requirement of obtaining prior RBI approval as per the Change in Control Directions. This exclusion would provide the much-needed relief for genuine structuring or restructuring transactions.

Threshold for change in control – constitution and limit

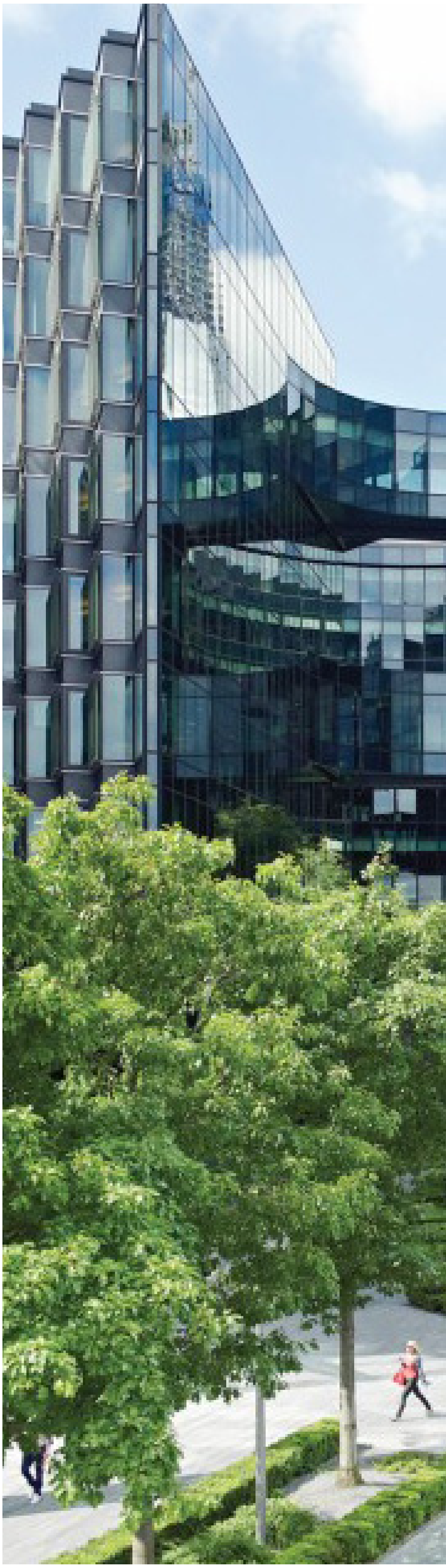
The Change in Control Directions specify a limit of 10 % of the paid up capital to constitute a change in management or control through mergers/ amalgamations. No threshold has been prescribed for transactions other than mergers/ amalgamations. The paid up capital of an NBFC could include instruments/ securities that may not have any voting rights and would not result in any effective change in control of the NBFC. Accordingly, paid up capital being considered as the base on which the threshold is to be computed could lead to absurd results which is explained by way of an illustration below:

- *Equity Share Capital (10,000 shares of INR 10 each) – Rs.1,00,000*
- *Redeemable Preference shares – Rs.9,00,000*
- *Total Paid up Capital- Rs.10,00,000*

The threshold in this illustration would be 100,000 (10% of 1,000,000). If the Promoters of the company transfer 50% of the equity shares (voting shares) to a third party, this would come to 50,000 which would still be within the threshold limit of 10% of the paid up capital i.e. 100,000 and thereby there would be no requirement to obtain RBI approval. This may not be what is intended to be covered by the RBI under the Change in Control Directions.

Also, the current limit of 10% as prescribed under the Change in Control Directions is a very low limit and could affect the timelines for the completion and execution of a large number of transactions as a consequence of the mandatory requirement to seek prior RBI approval. For example, (i) strategic investments by investors in NBFCs in excess of the prescribed threshold of 10% equity stake (without any actual change in control); (ii) acquisition/ transfer of shareholding of listed NBFCs on the floor of the stock exchange; or (iii) inter-group restructuring.

The threshold limit could be enhanced to a higher percentage of the paid up equity capital to provide more operational flexibility to NBFCs. A 25% threshold limit could be considered, as was prescribed under the draft RBI guidelines issued pursuant to the recommendations of the Thorat Committee.



Prior approval for all mergers and amalgamations involving NBFCs

Regulation (ii)(d) of the Change in Control Directions states that that an RBI approval will be required before approaching the Court or Tribunal for mergers/amalgamations involving NBFCs. This is in addition to the two identifiable points (Regulation (ii)(b) and (ii)(c) with respect to mergers/ amalgamations – first where there is an acquisition of control through merger / amalgamation and second where there is a transfer of shareholding in excess of 10% in an NBFC under merger / amalgamation.

It is unclear whether the intent is to cover all Court-approved mergers/ amalgamations involving an NBFC or only the two specific types of transactions. All mergers/ amalgamations being required to comply with the requirement of obtaining prior RBI approval, could result in a delay in timelines and other practical challenges for transactions that do not involve any acquisition or transfer of control or management.

The RBI could consider issuing a clarification on this matter so that there is no ambiguity surrounding the need for compliance by NBFCs in cases where the mergers/amalgamationsdo not fall in Regulation (ii)(a), (b) and (c) of the Change in Control Directions.

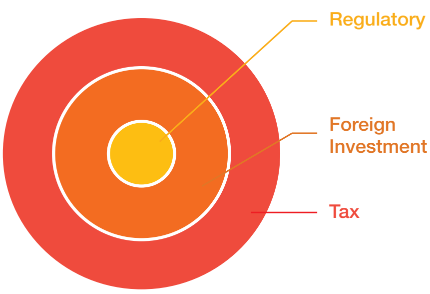
Conclusion

The extension of the corporate governance compliance procedures to NBFC-ND is certainly a step in the right direction as this will help ensure that the management of NBFCs is of "fit and proper" character and help build investor/ customer confidence. However, the RBI will still need to provide clarity on a number of aspects for the effective implementation and compliance with the regulations. Furthermore, adequate guidance is still awaited on the details of the application process, application format, supporting documentation required, etc. that have been specifically prescribed with respect to fresh NBFC applications, to ensure simplicity and transparency in the process, resulting in awareness both amongst the applicants and the RBI officials reviewing the application, thereby ensuring the efficient disposal of applications.

Areas requiring consideration

There are certain other areas in which recommendations have been made in the Committee reports or have been represented by the NBFC industry players which require deliberation and consideration for the benefit of the NBFC sector as a whole.

Figure 17



Regulatory
- Extension of SARFAESI coverage
- Differential risk weights for capital adequacy ratio
- Access to refinancing schemes
- Simplification and clarity in CIC regulations

Foreign Investment
- Challenges in undertaking investment by way of treasury functions by foreign owned NBFCs

Tax
- Extension of tax benefits available to banks to NBFCs

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) coverage

Currently, NBFCs have been kept outside the purview of the SARFAESI Act. The NBFC sector has been requesting the extension of the benefits of the SARFAESI Act, which is long overdue. Though banks and public financial institutions enjoy the SARFAESI Act's benefits, the NBFCs are still outside the purview of this framework. Both the Thorat Committee and the Mor Committee recognised this and recommended that NBFCs be given access to benefits under the SARFAESI Act.

Several trade associations, along with industry players, have made representations seeking extension of the provisions of the SARFAESI Act to registered NBFCs. A reform in this area is critical as the SARFAESI Act empowers banks and financial institutions to recover their NPAs without court intervention. Given that the RBI's intent is to harmonise the regulatory framework for banks and NBFCs, coverage of NBFCs under the SARFAESI Act would go a long way towards creating a level playing field for NBFCs.

NBFCs play an important role in the banking system by complementing banks, broadening access to financial services, and diversifying the sector. NBFCs should thus also be brought under the ambit of the SARFAESI Act to enhance investor confidence and ensure robust growth of the financial service sector.

Differential risk weights for capital adequacy ratio

The risk weights to be applied by banks for capital adequacy purposes also take into account the credit rating of the borrower. This provision is not available for NBFCs even though banks and NBFCs operate in the same macroeconomic environment. Even in respect of secured lending / investments where the quality of security is similar to that of banks, no differentiation in risk weights is allowed for NBFCs. To add to their difficulties, the draft NBFC guidelines proposed higher risk weights for exposure to capital markets and the commercial real estate sector.

The NBFC industry has long been requesting revision in the allocation of risk weights and introduction of norms similar to those prescribed for banks. While differential risk weights have not been introduced, the revised regulatory framework has enhanced the Tier I capital requirement to 10% for the purpose of computing the CRAR that would result in an increase in the cost of operations for the NBFCs.

Access to refinancing schemes

Currently, NBFCs are not eligible for access to refinancing schemes from the National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI) etc. This is because the refinancing schemes of these bodies are available to only certain types of institution. For example, a Housing Finance Company would be eligible for refinancing by the NHB; however an NBFC providing housing loans to retail consumers does not have access to such schemes. This violates the neutrality principle as far as NBFCs are concerned. The Mor Committee recommended that the criteria for making use of refinancing from NABARD, NHB, SIDBI and credit guarantee facilities should be based on nature / area of activity rather than the institution type.

This aspect may not be directly under the purview of the RBI as it would require amendments to other statutory Acts under which the financing institutions were constituted. However, given the increasing funding constraints of NBFCs, it is important that the RBI and the Government actively consider this matter.

Challenges in undertaking investment by way of treasury functions by foreign owned NBFCs

As per the extant FDI policy, foreign investment is permitted under automatic route in the prescribed 18 non-banking financial service activities. Undertaking any other financial activity would require prior government approval (through the Foreign Investment Promotion Board).

As per the RBI norms, lending and investing are the primary activities permitted to be undertaken by a registered NBFC. As part of liquidity measures and asset liability management, NBFCs do need to undertake treasury investments. Under the extant FDI norms, the only broad head under which the NBFC activities can get covered under automatic route is 'Leasing and finance'. However, the term 'finance' has not been defined. Based on its general meaning, while 'lending' activity would get covered, 'investment' activity (both strategic as well as treasury) would not get covered specifically.

Since both foreign owned and domestic owned NBFCs are licensed under the same Act, as far as RBI regulation are concerned, they are assumed to have the same ability to do business. In view of the ambiguity surrounding the phrase 'leasing and finance', it has been a challenge to map the activities permissible under the RBI NBFC regulations to the broad heading of 'Leasing and Finance'. Interestingly, while there is no bar on Indian companies with FDI (non-NBFCs) from investing in such instruments, the NBFCs with FDI struggle with this issue due to the lack of harmonisation in definitions provided under the FDI policy with the framework under RBI NBFC regulations. It is therefore essential that it is at least clarified that deployment of surplus funds should be construed as a financing and treasury management activity permissible under automatic route. Alternatively, similar to the heading 'stock broking' which is relevant for stock broking business, the term 'Non-banking Financing' be replaced instead of 'leasing and finance' as that would permit foreign owned NBFCs to undertake all activities as permitted under the RBI directions and at the same time be subject to the other norms under the FDI policy such as sectoral caps, capitalisation, pricing guidelines, etc.

Core Investment Companies – Simplification and clarity in definition needed

The CIC regulations were issued by RBI as a welcome move, with the intention to simplify the NBFC framework and regulations that apply to group holding companies. However, since its inception, the industry is struggling to get a complete clarity on this framework and thereby the framework has not completely taken off well.

Another concern which arises is with respect to the definition of a CIC. The current conditions for an entity to qualify as a CIC are such that it may be difficult for that entity to undertake any other business activity from the said entity. As a fact pattern; there could be several group holding companies which not only hold shares of group companies but also undertake other business activities in the same entity. In order to continue to carry on their business operations in a smooth manner, the CIC framework should be simplified such that these entities not only come forward to register themselves with the RBI but are also in a position to satisfy the CIC definition along with carrying on their business operations in a simple and efficient manner.

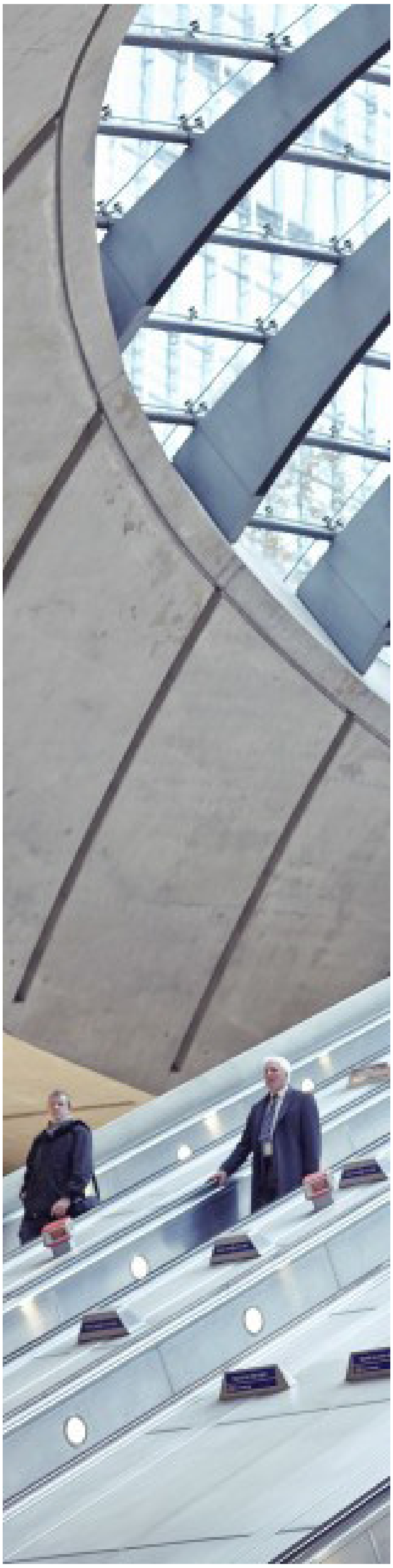
Extension of tax benefits to NBFCs similar to that currently available to banks

The RBI has been striving to align the regulatory framework for NBFCs with that applicable for banks. The Thorat Committee had made recommendations to plug the so called regulatory arbitrage between banks and NBFCs. Based on these recommendations, under the revised regulatory framework, the asset classification norms and the provisioning requirements have already been modified for NBFCs to bring them on par with banks. The Thorat Committee had also recommended that there should be tax-parity between banks and NBFCs.

Amongst others, the following key provisions under the Income-tax Act, 1961 (I.T. Act) provide tax relief to banks and some other financial institutions but NBFCs are currently not covered by these provisions.

- Section 43D of the I.T. Act recognises the principle of taxing income on NPA on receipt basis. In accordance with the directions issued by the RBI, similar to the other financial institutions, NBFCs also follow prudential norms and are required to defer income in respect of their non-performing accounts. In the absence of specific coverage of this section for NBFCs, the current tax framework requires NBFCs to recognise income on such NPAs on an accrual basis, resulting in levy of tax on income which may not be realised at all. This severely impacts the liquidity of NBFCs in terms of cash flow pay-outs, impacts their profitability and also has a consequent impact on their cost of operations.
- As per section 36(1)(viia) of the I.T. Act, provisions for bad and doubtful debts made by banks are tax deductible subject to certain prescribed limits. Alternatively, such banks have been given an option to claim a deduction in respect of any provision made for assets classified as doubtful assets or loss assets up to an extent. NBFCs are similar to banks in almost respect of financing and are subject to same directions of RBI as regards income recognition and provisioning norms. Accordingly, as per its directions, NBFCs need to necessarily make provisions for NPAs. It is appropriate, in all fairness, that the provision for NPAs made by NBFCs registered with RBI also be allowed as a tax deduction.
- As per section 194A of the I.T. Act, TDS @10% is required to be deducted on the interest portion of the instalment paid to NBFCs whereas banking companies and public financial institution are exempted from the purview of this tax withholding requirement. This creates severe cash flow constraints since NBFCs operate on a thin spread/ margin on interest which at times is even lesser than the TDS on the gross interest.
- As per section 72A of the I.T. Act, at the time of amalgamation of banking companies, the accumulated losses are allowed to be carried forward and claimed by the amalgamated entity. However, similar benefit is not specifically available to NBFCs resulting in lapse of accumulated losses upon amalgamation.

Distinction in the applicability of various tax provisions puts NBFCs in a disadvantageous position vis-à-vis other financial institutions including banks. It is therefore only fair that the tax benefits available to banks should also be made available to NBFCs. Extension of tax benefits will provide much needed relief to the NBFC sector which is already severely constrained due to tight profit margins and high cost funding.



Looking Ahead

The recognition of NBFCs as integral to the financial services ecosystem is reflected in the recent policy measures. In addition, activity based regulation is likely to rationalize the cost of compliance and create better fit between the regulations and the regulated entities.

Restrictions on debentures funding, securitisation and loss of Priority Sector status to on-lending through NBFCs will continue to constrain the funding ability of the NBFCs. While the tepid growth environment of the last few years and regulatory push has forced banks' attention towards direct and indirect lending to priority sector borrowers, this is very likely to reverse once the need for project finance and large scale funding for growth kicks in. Banks have a different cost structure and are geared to service a certain nature of clientele. NBFCs, by virtue of their business focus are well positioned to build profitable businesses in the priority sector borrower segment.

As differentiated licensing of different types of banks creates greater vitality in the small finance segment that will benefit consumers through increased penetration and wider suite of products and services, the opportunity for NBFCs will continue to grow. Considering the funding constraints, conversion to universal or small banks will provide viable option for NBFCs looking to scale up their operations and expand their reach in terms of market access and customer base. However, this looks difficult for most of the larger players as the migration of a large book without regulatory forbearance seems extremely difficult.

Even after differential licensing becomes a more accepted reality, NBFCs will continue to present an attractive business model to asset focussed organizations, or organizations that can tap into viable funding sources, domestic or foreign. Therefore, in the context of a growing economy, a stable regulatory environment will provide opportunities to NBFCs to continue to grow in the financial ecosystem and create meaningful financial inclusion and employment opportunities in the remote corners of the country.

Glossary

ASSOCHAM	The Associated Chambers of Commerce & Industry of India
CIC	Core Investment Company
CoR	Certificate of Registration
CRAR	Capital Risk Adequacy Ratio
FAQ	Frequently Asked Questions
FDI	Foreign Direct Investment
FIPB	Foreign Investment Promotion Board
GDP	Gross Domestic Product
I.T. Act	Income-tax Act, 1961
KYC	Know Your Client
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Finance Company
NBFC-ND	Non-deposit accepting NBFCs that are not systemically important
NBFC-ND-SI	Systemically important non-deposit accepting NBFCs
NBFC-D	Deposit accepting NBFCs
NHB	National Housing Bank
NOF	Net Owned Funds
NPA	Non-Performing Asset
PwC	PricewaterhouseCoopers Private Limited
SARFAESI Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SIDBI	Small Industries Development Bank of India

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ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

Vision

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrierless technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

Mission

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

Members – Our Strength

ASSOCHAM represents the interests of more than 4,00,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference.

Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

Insight Into 'New Business Models'

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporates, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi and has over 4 Lakh Direct / Indirect members.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

The Associated Chambers of Commerce and Industry of India

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