RESERVE BANK OF INDIA
DEPARTMENT OF REGULATION (NON-BANKING FINANCIAL COMPANIES),
CENTRAL OFFICE, 2ND FLOOR, MAIN OFFICE BUILDING,
SHAHID BHAGAT SINGH MARG, FORT, MUMBAI – 400 001

RBI/DoR(NBFC)/2016-17/39
Master Direction DoR(NBFC).PD.003/03.10.119/2016-17 **August 25, 2016**
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Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016

In exercise of the powers conferred by sections 45JA, 45L and 45M of the Reserve Bank of India Act, 1934 (2 of 1934), and of all the powers enabling it in this behalf, the Reserve Bank of India (hereinafter also referred to as the Bank) being satisfied that it is necessary and expedient in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country to do so, hereby issues to every Core Investment Company, in supersession of the Notification No. DNBS.(PD).219/CGM(US)-2011 and the Notification No. DNBS. (PD).220/CGM(US)-2011 dated January 05, 2011, the Core Investment Companies (Reserve Bank) Directions, 2016 (the Directions) hereinafter specified.

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Subject

Section – I
Introduction

Chapter – I
PRELIMINARY

1. Short Title and Commencement.

(1) These Directions shall be called the Core Investment Companies (Reserve Bank) Directions, 2016.

(2) These directions shall come into force with immediate effect.

2. Applicability

(1) These directions shall apply to every Core Investment Company (CIC), that is to say, a non-banking financial company carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet:-

(i) it holds not less than 90% of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies;

(ii) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trust only as sponsor constitute not less than 60% of its net assets as mentioned in clause (xviii) of sub-para (1) of paragraph 3 below;

(iii) Provided; that the exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time. It does not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

(iv) It does not carry on any other financial activity referred to in Section 45I(c) and 45I (f) of the Reserve Bank of India Act, 1934 except

(a) investment in

(i) bank deposits,

(ii) money market instruments, including money market mutual funds that make investments in debt/money market instruments with a maturity of up to 1 year.

(iii) government securities, and

(iv) bonds or debentures issued by group companies,

(b) granting of loans to group companies and

(c) issuing guarantees on behalf of group companies.

(2) These directions shall not be applicable to a Core Investment Company which is an 'Unregistered CIC' as defined at para 6 of the directions.

(3) The Bank may, if it considers it necessary for avoiding any hardship for any other just and sufficient reason, grant extension of time to comply with or exempt any CIC from all or any of the provisions of these Directions either generally or for any specified period, subject to such conditions as the Bank may impose.

(4) These Directions consolidate the regulations as issued by Department of Non-Banking Regulation, Reserve Bank of India. However, any other Directions/guidelines issued by any other Department of the Bank, as applicable to a Core Investment Company shall be adhered to by it.

Chapter - II
Definitions

3. (1) For the purpose of these Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below —

(i) "adjusted net worth" means –

(a) the aggregate, as appearing in the last audited balance sheet as at the end of the financial year, of Owned Funds as defined at (xxi) below.

(b) as increased by:-

(A) 50% of the unrealized appreciation in the book value of quoted investments as at the date of the last audited balance sheet as at the end of the financial year (such appreciation being calculated, as the excess of the aggregate market value of such investments over the book value of such investments); and

(B) the increase, if any, in the equity share capital since the date of the last audited balance sheet.

(c) as reduced by:-

(A) the amount representing any direct or indirect capital contribution made by one CIC in another CIC, to the extent such amount exceeds ten per cent of Owned Funds of the investing CIC;

(B) the amount of diminution in the aggregate book value of quoted investments (such diminution being calculated as the excess of the book value of such investments over the aggregate market value of such investments), and;

(C) the reduction, if any, in the equity share capital since the date of the last audited balance sheet.

Further, the deduction requirement as provided at para 3(c)(A) above shall be with immediate effect from August 13, 2020, for any investment made by a CIC in another CIC. In cases where the investment by a CIC in another CIC is already in excess of 10 percent as on this date, the CIC need not deduct the excess investment from owned funds for computation of its ANW till March 31, 2023.

(ii) "Bank" means the Reserve Bank of India constituted under Section 3 of the Reserve Bank of India Act, 1934

(iii) “break up value” means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;

(iv) “carrying cost” means book value of the assets and interest accrued thereon but not received;

(v) “Companies in the Group” means an arrangement involving two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above).

(vi) “Conduct of business regulations” means the directions issued by the Bank from time to time on Fair Practices Code and Know Your Customer guidelines.

(vii) "control" shall have the same meaning as is assigned to it under clause (e) of sub-regulation (1) of regulation 2 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

(viii) “Core Investment Company (CIC)” means a core investment company having total assets of not less than ₹100 crore either individually or in aggregate along with other CICs in the Group and which raises or holds public funds.

(ix) "current investment" means an investment which is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made;

(x) “customer interface” means interaction between the CIC and its customers while carrying on its business.

(xi) “earning value” means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate:
(a) in case of predominantly manufacturing company, eight per cent;
(b) in case of predominantly trading company, ten per cent; and
(c) in case of any other company, including non-banking financial company, twelve per cent;
Note: If, an investee company is a loss making company, the earning value will be taken at zero;

(xii) “fair value” is the mean of the earning value and the break up value;

(xiii) “hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt;

(xiv) “investment” means investment in shares, stock, bonds, debentures or securities issued by the Government or local authority or other marketable securities of a like nature.

(xv) “Infrastructure Investment Trust” means a trust registered under SEBI (Infrastructure Investment Trusts) Regulations, 2014 and as amended from time to time.

(xvi) “long term investment” means an investment other than a current investment;

(xvii) “market value of quoted investments” means the average of the weekly highs and lows of the closing price of the investments, on a recognized stock exchange where the investment is most actively traded, during the period of 26 weeks immediately preceding the end of the financial year at which date the last audited balance sheet is available.

(xviii) "net assets" means total assets excluding -

(i) cash and bank balances;

(ii) investment in money market instruments and money market mutual funds

(iii) advance payments of taxes; and

(iv) deferred tax payment.

(xix) “net asset value” means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme;

(xx) “net book value” means:

(a) in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 17(2)(i) of these Directions;

(b) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

(xxi) “outside liabilities” means 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.

(xxii) “owned funds” 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;

(xxiii) “public deposit” for the purpose of these Directions shall have the same meaning as defined in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

(xxiv) “Public funds" includes funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures etc. but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue.

(xxv) “substantial interest” means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten per cent of the paid up capital of the company; or the capital subscribed by all the partners of a partnership firm;

(xxvi) “total assets” means the total of all assets appearing on the assets side of the balance sheet.

(2) Words or expressions used and not defined in these directions but defined in the Master Directions issued by the Bank, shall have the meanings respectively assigned to them under that Act or Directions. Any words or expressions used and not defined in these directions or in the Act or any of the Directions issued by the Bank, shall have the meanings respectively assigned to them under the Companies Act, 2013 (18 of 2013).

Chapter – III
Registration

4. Every CIC shall apply to the Bank for grant of Certificate of Registration, irrespective of any advice in the past, issued by the Bank, to the contrary.

5. Every CIC shall apply to the Bank for grant of Certificate of Registration within a period of three months from the date of becoming a CIC.

6. CICs (a) with an asset size of less than ₹100 crore, irrespective of whether accessing public funds or not and (b) with an asset size of ₹100 crore and above and not accessing public funds are not required to register with the Bank under Section 45IA of the RBI Act, 1934 in terms of notification No. DNBS.PD.221/CGM (US) 2011 dated January 5, 2011, and will be termed as 'Unregistered CICs'. However CICs may be required to issue guarantees or take on other contingent liabilities on behalf of their group entities. Before doing so, all CICs must ensure that they can meet the obligations thereunder, as and when they arise. In particular, Unregistered CICs must be in a position to do so without recourse to public funds in the event the liability devolves, else they shall approach the Bank for registration before accessing public funds.

If unregistered CICs with asset size above ₹100 crore access public funds without obtaining a Certificate of Registration (CoR) from the Bank, they shall be violating Core Investment Companies (Reserve Bank) Directions, 2016.

Group Structure

7. The number of layers of CICs within a Group (including the parent CIC) shall be restricted to two, irrespective of the extent of direct or indirect holding/ control exercised by a CIC in the other CIC. If a CIC makes any direct/ indirect equity investment in another CIC, it will be deemed as a layer for the investing CIC. While the regulation shall be applicable from August 13, 2020, existing entities shall reorganise their business structure and adhere to this guideline latest by March 31, 2023.

Section – II
Prudential Issues

Chapter – IV
Capital Requirements

8. Adjusted Net Worth of a CIC shall at no point of time be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year.

Explanations

On balance sheet assets

(1) In these Directions, degrees of credit risk expressed as percentage weights have been assigned to balance sheet assets. Hence, the value of each asset / item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the capital ratio. The risk weighted assets shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Weighted risk assets - On-Balance Sheet items	Percentage weight
(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) Investments	
(a) Approved securities[Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) Fixed deposits/certificates of deposits/bonds of public financial institutions	100
(d) Shares of all companies and debentures / bonds/commercial papers of all companies and units of all mutual funds	100

(iii) Current assets	
(a) Stock on hire (net book value)	100
(b) Intercorporate loans/deposits	100
(c) Loans and advances fully secured against deposits held	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good[Except at (vi) below]	100
(f) Bills purchased/discounted	100
(g) Others (To be specified)	100
(iv) Fixed Assets (net of depreciation)	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
(v) Other assets	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100
(vi) Domestic Sovereign	
(a) fund based claims on the Central Government	0
(b) Direct loan / credit / overdraft exposure and investment in State Government securities	0
(c) Central Government guaranteed claims	0
(d) State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20

(e) State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

Notes:

(i) Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.

(ii) Assets which have been deducted from owned funds to arrive at net owned funds shall have a weight of ‘zero’.

(iii) While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, such CICs-ND-SI shall net off the amount of cash margin/caution money/security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.

(iv) The counterparty credit risk, arising out of exposure of CICs-ND-SI to CCIL on account of securities financing transactions (CBLOs) shall carry a risk weight of zero, as it is presumed that the CCP’s exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP’s credit risk exposures. The deposits / collaterals kept by CICs-ND-SI with CCIL shall attract a risk weight of 20%.

Off-balance sheet items

(2) In these Directions, degrees of credit risk exposure attached to off-balance sheet items have been expressed as percentage of credit conversion factor. Hence, the face value of each item requires to be first multiplied by the relevant conversion factor to arrive at risk adjusted value of off-balance sheet item. The aggregate shall be taken into account for reckoning the minimum capital ratio. This shall have to be again multiplied by the risk weight of 100. The risk adjusted value of the off-balance sheet items shall be calculated as per the credit conversion factors of non-funded items as detailed hereunder: -

Nature of item	**Credit conversion factor**
	Percentage
i) Financial & other guarantees	100
ii) Share/debenture underwriting obligations	50
iii) Partly-paid shares/debentures	100
iv) Bills discounted/rediscounted	100

v) Lease contracts entered into but yet to be executed	100

Leverage Ratio

9. The outside liabilities of a CIC shall at no point of time exceed 2.5 times its Adjusted Net Worth as on the date of the last audited balance sheet as at the end of the financial year.

Chapter – V
Prudential Regulations

10. Prudential Regulations shall be applicable to CIC as defined in clause (viii) of sub-para (1) of paragraph 3 of these Directions.

11. Income recognition

(1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount/ hire charges/ lease rentals or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

12. Income from investments

(1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis:

Provided that the income from dividend on shares of corporate bodies shall be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the CIC's right to receive payment is established.

(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds shall be taken into account on accrual basis:

Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

(3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by

Central Government or a State Government shall be taken into account on accrual basis.

13. Accounting standards

(1) Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India (referred to in these Directions as "ICAI") shall be followed insofar as they are not inconsistent with any of these Directions.

(2) CICs implementing Indian Accounting Standards shall adhere to the circular DOR (NBFC).CC.PD No.109/22.10.106/2019-20 dated March 13, 2020 on Implementation of Indian Accounting Standards as amended from time to time.

14. Accounting of investments

(1) (i) The Board of Directors of every CIC shall frame investment policy for the company and shall implement the same;

(ii) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;

(iii) Investments in securities shall be classified into current and long term, at the time of making each investment;

(iv) In case of inter-class transfer –

(a) There shall be no such transfer on ad-hoc basis;

(b) such transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;

(c) the investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;

(d) the depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;

(e) the depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.

(2) (i) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.

(a) equity shares,

(b) preference shares,

(c) debentures and bonds,

(d) Government securities including treasury bills,

(e) units of mutual fund, and

(f) others.

(3) Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

(4) Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. However, CICs-ND-SI may substitute fair value for the breakup value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.

(5) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.

(6) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

(7) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

(8) Commercial papers shall be valued at carrying cost.

(9) A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.

Note: Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

15. Need for policy on demand/ call loans

(1) The Board of Directors of every CIC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

(2) Such policy shall, inter alia, stipulate the following,-

(i) A cut-off date within which the repayment of demand or call loan shall be demanded or called up;

(ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut-off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;

(iii) The rate of interest which shall be payable on such loans;

(iv) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;

(v) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;

(vi) A cut-off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;

(vii) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

16. Asset classification

(1) Every CIC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify

its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

(i) Standard assets;

(ii) Sub-standard assets;

(iii) Doubtful assets; and

(iv) Loss assets.

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

(3) **For CICs with total assets of less than ₹500 crore the asset classification norms shall be as follows:**

(i) Standard asset shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;

(ii) Sub-standard asset shall mean

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;

(b) an asset where the terms of the agreement regarding interest and/ or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:

(iii) Doubtful asset shall mean:
a term loan, or
a lease asset, or
a hire purchase asset, or
any other asset,
which remains a sub-standard asset for a period exceeding 18 months;

(iv) loss asset shall mean:

(a) an asset which has been identified as loss asset by the CIC or its internal or external auditor or by the Bank during the inspection of the CIC, to the extent it is not written off by the CIC; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

(v) Non-Performing Asset (referred to in these Directions as “NPA”) shall mean:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the installment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head ‘other current assets’ in the nature of short term loans/ advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/ beneficiary when any of the above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, a CIC shall classify each such account on the basis of its record of recovery.

(4) **For CICs with total assets of ₹500 crore and above the asset classification norms shall be as follows:**

(i) “standard asset” shall mean the assets in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business;

(ii) “sub-standard asset” shall mean:

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;

Provided that the period ‘not exceeding 18 months’ stipulated in this sub-clause shall be ‘not exceeding 16 months’ for the financial year ending March 31, 2016; ‘not exceeding 14 months’ for the financial year ending March 31, 2017; and ‘not exceeding 12 months’ for the financial year ending March 31, 2018 and thereafter.

(b) an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:

(iii) Doubtful asset shall mean:

(a) a term loan, or

(b) a lease asset, or

(c) a hire purchase asset, or

(d) any other asset,

which remains a sub-standard asset for a period ‘exceeding 18 months’ for the financial year ended March 31, 2015; ‘exceeding 16 months’ for the financial year ended March 31, 2016; ‘exceeding 14 months’ for the financial year ending March 31, 2017 and ‘exceeding 12 months’ for the financial year ending March 31, 2018 and thereafter.

(iv) loss asset shall mean:

(a) an asset which has been identified as loss asset by the CIC with asset size of ₹500 crore and above or its internal or external auditor or by the Bank during its inspection, to the extent it is not written off by it; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower

(v) Non-Performing Asset (referred to in these Directions as “NPA”) shall mean:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head ‘other current assets’ in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

Provided that the period of ‘six months or more’ stipulated in sub-clauses (a) to (f) shall be ‘five months or more’ for the financial year ending March 31, 2016; ‘four months or more’ for the financial year ending March 31, 2017 and ‘three months or more’, for the financial year ending March 31, 2018 and thereafter.

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

Provided that the period of ‘twelve months or more’ stipulated in this sub-clause shall be ‘nine months or more’ for the financial year ending March 31, 2016; ‘six months or more’ for the financial year ending March 31, 2017; and ‘three months or more’ for the financial year ending March 31, 2018 and thereafter.

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, a CIC with asset size of ₹ 500 crore and above shall classify each such account on the basis of its record of recovery.

17. Provisioning requirements

Every CIC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:-

Loans, advances and other credit facilities including bills purchased and discounted-

(1) The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

(i) Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for;
(ii) Doubtful Assets	(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the CIC has a valid recourse shall be made. The realisable value shall be estimated on a realistic basis; (b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. Estimated realisable value of the outstanding) shall be made on the following basis:-
Period for which the asset has been considered as doubtful	**Per cent of provision**
Up to one year	20
One to three years	30
More than three years	50
(iii) Sub-standard assets	A general provision of 10 percent of total outstanding shall be made.

(2) Lease and hire purchase assets - The provisioning requirements in respect of hire purchase and leased assets shall be as under:

(i) Hire purchase assets - In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by

(a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and

(b) the depreciated value of the underlying asset, shall be provided for.

Explanation: For the purpose of this paragraph,

(1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and

(2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

Additional provision for hire purchase and leased assets

(ii) In respect of hire purchase and leased assets, additional provision shall be made as under:

(a) Where hire charges or lease rentals are overdue upto 12 months	Nil
(b) Where hire charges or lease rentals are overdue for more than 12 months but upto 24 months	10 percent of the net book value
(c) Where hire charges or lease rentals are overdue for more than 24 months but upto 36 months	40 percent of the net book value
(d) where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value
(e) where hire charges or lease rentals are overdue for more than 48 months	100 percent of the net book value

(iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

Notes:

(1) The amount of caution money/margin money or security deposits kept by the borrower with the CIC in pursuance of the hire purchase agreement shall be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement shall be deducted only against the provisions stipulated under clause (ii) above.

(2) The amount of security deposits kept by the borrower with the CIC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement shall be deducted only against the provisions stipulated under clause (ii) above.

(3) It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised shall not be taken as reason for not making provision.

(4) An asset which has been renegotiated or rescheduled as referred to in paragraph 16.3(ii)(b) and 16.4(ii)(b) of these Directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision shall be made as applicable to such asset till it is upgraded.

(5) The balance sheet to be prepared by a CIC shall be in accordance with the provisions contained in paragraph 4 of Annex V of this Direction.

(6) All financial leases written on or after April 1, 2001 shall attract the provisioning requirements as applicable to hire purchase assets.

18. Provision for Standard Assets

(1) A CIC with total asset of less than ₹500 crore, shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets shall not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.

(2) A CIC with total asset size of ₹500 crore and above shall make provision for standard assets at 0.25 per cent by the end of March 2015; 0.30 per cent by the end of March 2016; 0.35 per cent by the end of March 2017 and 0.40 per cent by the end of March 2018 and thereafter, of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets shall not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.

19. Guidelines on Liquidity Risk Management Framework

Every CIC shall adhere to the set of liquidity risk management guidelines as detailed in **Annex I** of these Directions, as applicable. It will be the responsibility of the Board of each CIC to ensure that the guidelines are adhered to. The internal controls required to be put in place by CICs as per these guidelines shall be subject to supervisory review.

20. Accounting year

Every CIC shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever a CIC intends to extend the date of its balance sheet as per provisions of the Companies Act, it shall take prior approval of the Bank before approaching the Registrar of Companies for this purpose.

Further, even in cases where the Bank and the Registrar of Companies grant extension of time, a CIC shall furnish to the Bank a proforma balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the said date. Every applicable CIC (whether listed or not) shall finalise its balance sheet within a period of 3 months from the date to which it pertains or any such date as notified by SEBI for submission of financial results by listed entities.

21. Schedule to the balance sheet

Every CIC shall append to its balance sheet prescribed under the Companies Act, 2013, the particulars in the schedule as set out in **Annex II**.

22. Transactions in Government securities

Every CIC shall undertake transactions in Government securities through its CSGL account or its demat account:

Provided that no CIC shall undertake any transaction in government security in physical form through any broker.

23. Loans against CICs own shares prohibited

No CIC shall lend against its own shares.

24. Information with respect to change of address, directors, auditors, etc. to be submitted

Every CIC shall communicate, not later than one month from the occurrence of any change in:

(i) the complete postal address, telephone number/s and fax number/s of the registered/corporate office;

(ii) the names and residential addresses of the directors of the company;

(iii) the names and the official designations of its principal officers;

(iv) the names and office address of the auditors of the company; and

(v) the specimen signatures of the officers authorised to sign on behalf of the company;

to the Regional Office of the Department of Supervision of the Bank under whose jurisdiction the CIC is registered.

25. CICs not to be partners in partnership firms

(1) No CIC shall contribute to the capital of a partnership firm or become a partner of such firm.

(2) CIC-ND-SI which had already contributed to the capital of a partnership firm or was a partner of a partnership firm shall seek early retirement from the partnership firm.

(3) In this connection it is further clarified that;

a. Partnership firms mentioned above shall also include Limited Liability Partnerships (LLPs).

b. Further, the aforesaid prohibition shall also be applicable with respect to Association of persons; these being similar in nature to partnership firms

26. Loans against security of shares

CIC lending against the collateral of listed shares shall,

(i) maintain a Loan to Value (LTV) ratio of 50% for loans granted against the collateral of shares. LTV ratio of 50% is required to be maintained at all times. Any shortfall in the maintenance of the 50% LTV occurring on account of movement in the share prices shall be made good within 7 working days

(ii) in case where lending is being done for investment in capital markets, accept only Group 1 securities (specified in SMD/Policy/Cir-9/2003 dated March 11, 2003 as amended from time to time, issued by SEBI) as collateral for loans of value more than 5 lakh, subject to review by the Bank.

(iii) report on-line to stock exchanges on a quarterly basis, information on the shares pledged in their favour, by borrowers for availing loans in format as given in **Annex III**.

Section – III
Risk Management and Governance Issues

Chapter VI
Acquisition / Transfer of Control

27. (1) A CIC as defined in clause (viii) of sub-para (1) of paragraph 3 of these Directions, shall require prior written permission of the Bank for the following:

(i) any takeover or acquisition of control of CIC, which may or may not result in change of management;

(ii) any change in the shareholding of CIC, including progressive increases over time, which results in acquisition / transfer of shareholding of 26 per cent or more of the paid up equity capital of the CIC.
Provided that, prior approval shall not be required in case of any shareholding going beyond 26% due to buyback of shares / reduction in capital where it has approval of a competent Court. The same is to be reported to the Bank not later than one month from its occurrence;

(iii) any change in the management of the CIC which results in change in more than 30 per cent of the directors, excluding independent directors.
Provided that, prior approval shall not be required in case of directors who get re-elected on retirement by rotation.

(2) Notwithstanding clause (i), CICs shall continue to inform the Bank regarding any change in their directors / management not later than one month from the occurrence of any change.

28. Application for prior approval

(1) CICs shall submit an application, in the company letter head, for obtaining prior approval of the Bank as above, along with the following documents:

(i) Information about the proposed directors / shareholders as per the **Annex IV**;

(ii) Sources of funds of the proposed shareholders acquiring the shares in the CIC;

(iii) Declaration by the proposed directors / shareholders that they are not associated with any unincorporated body that is accepting deposits;

(iv) Declaration by the proposed directors / shareholders that they are not associated with any company, the application for Certificate of Registration (CoR) of which has been rejected by the Bank;

(v) Declaration by the proposed directors / shareholders that there is no criminal case, including for offence under Section 138 of the Negotiable Instruments Act, against them; and

(vi) Bankers' Report on the proposed directors / shareholders.

(2) Applications in this regard shall be submitted to the Regional Office of the Department of Supervision in whose jurisdiction the Registered Office of the CIC is located.

29. Requirement of Prior Public Notice about change in control

(1) A public notice of at least 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares. Such public notice shall be given by the CIC and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the Bank.

(2) The public notice shall indicate the intention to sell or transfer ownership / control, the particulars of transferee and the reasons for such sale or transfer of ownership / control. The notice shall be published in at least one leading national and in one leading local (covering the place of registered office) vernacular newspaper.

Chapter VII

Corporate Governance and Disclosure requirements

30. (1) Corporate governance requirements will be as per the Companies Act, 2013. Disclosure requirements will be applicable to CICs as per the guidelines contained at Annex V of this circular. The guidelines indicate basic minimum requirements and CICs shall strive to achieve higher standards of governance and disclosure.

(2) CICs shall ensure that a policy is put in place with the approval of the Board for ascertaining the 'fit and proper' status of directors not only at the time of appointment, but also on a continuous basis.

(3) All CICs shall

(i) ensure that a policy is put in place with the approval of the Board of Directors for ascertaining the fit and proper criteria of the directors at the time of appointment, and on a continuing basis. The policy on the fit and proper criteria shall be on the lines of the Guidelines contained in Annex VI;

(ii) obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in Annex VII;

(iii) obtain a Deed of Covenant signed by the directors, which shall be in the format as given in Annex VIII;

(iv) furnish to the Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the CIC that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Department of Supervision of the Bank where the company is registered, within 15 days of the close of the respective quarter. The statement submitted by applicable CIC for the quarter ending March 31, shall be certified by the auditors.

Provided that the Bank, if it deems fit and in public interest, reserves the right to examine the fit and proper criteria of directors of any CIC irrespective of the asset size of such CIC.

Chapter VIII

Risk Management

31. Appointment of Chief Risk Officer

(1) All CICs with asset size of more than ₹5,000 crore shall appoint a CRO with clearly specified roles and responsibilities.

(2) The CRO is required to function independently so as to ensure highest standards of risk management.

(3) The CICs shall strictly adhere to the following instructions in this regard:

(i) The CRO shall be a senior official in the hierarchy of a CIC and shall possess adequate professional qualification/ experience in the area of risk management.

(ii) The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred/ removed from his post before completion of the tenure only with the approval of the Board and such premature transfer/ removal shall be reported to the Department of Supervision of the Regional Office of the Bank under whose jurisdiction the CIC is registered. In case the CIC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.

(iii) The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the MD & CEO/ Risk Management Committee (RMC) of the Board. In case the CRO reports to the MD & CEO, the RMC/ Board shall meet the CRO without the presence of the MD & CEO, at least on a quarterly basis. The CRO shall not have any reporting relationship with the business verticals of the CIC and shall not be given any business targets. Further, there shall not be any ‘dual hatting’ i.e. the CRO shall not be given any other responsibility.

(iv) The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO’s role in deciding credit proposals shall be limited to being an advisor.

(v) In CICs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

32. Constitution of Group Risk Management Committee

(1) The parent CIC in the group or the CIC with the largest asset size, in case there is no identifiable parent CIC in the group, shall constitute a Group Risk Management Committee (GRMC). The GRMC shall report to the Board of the CIC that constitutes it and shall meet at least once in a quarter. The composition of GRMC shall be as under:

(i) The GRMC shall comprise minimum of five members, including executive members.

(ii) At least two members shall be independent directors, one of whom shall be the Chairperson of the GRMC.

(iii) Members shall have adequate and commensurate experience in risk management practices.

(2) The GRMC will have the following responsibilities:

(i) Analyse the material risks to which the group, its businesses and subsidiaries are exposed. It must discuss all risk strategies both at an aggregated level and by type of risk and make recommendations to the Board in accordance with the group's overall risk appetite.

(ii) Identify potential intra-group conflicts of interest.

(iii) Assess whether there are effective systems in place to facilitate exchange of information for effective risk oversight of the group.

(iv) Assess whether the corporate governance framework addresses risk management across the group.

(v) Carry out periodic independent formal review of the group structure and internal controls.

(vi) Articulate the leverage of the Group and monitor the same.

(3) Based on the analyses and recommendations of the GRMC, CICs shall initiate corrective action, where necessary. Chief Risk Officers (CROs), appointed in CICs as per Para 31 above, shall initiate such corrective action.

(4) CICs shall submit to the Board, a quarterly statement of deviation certified by the Chief Executive Officer/ Chief Financial Officer, indicating deviations in the use of proceeds of any funding obtained by the CIC from creditors and investors from the objects/ purpose stated in the application, sanction letter or offer document for such funding.

Section – IV
Miscellaneous

Chapter- IX
Overseas Investment

33. These directions are in addition to those prescribed by Foreign Exchange Department for overseas investment.

34. Investment in [1]financial sector overseas

All CICs investing in Joint Venture/Subsidiary/Representative Offices overseas in the financial sector shall require prior approval from the Bank. CICs desirous of making overseas investment in financial sector shall hold a Certificate of Registration (CoR) from the Bank and shall comply with all the regulations applicable to CIC. CICs that are presently exempted from the regulatory framework of the Bank (exempted CICs), shall be required to be registered with the Bank and shall be regulated like CICs-ND-SI, where they intend to make overseas investment in financial sector.

35. Investment in non-financial sector

(1) Exempted CICs making overseas investment in non-financial sector shall not require registration from the Bank and hence, these Directions are not applicable to them. Further, a CIC need not obtain prior approval from Department of Supervision (DoS), RBI, for overseas investment in non-financial sector. However it shall report to the Regional Office of DoS where it is registered within 30 days of such investment in the stipulated format and at the prescribed periodicity.

(2) The eligibility criteria for investments abroad and other conditions prescribed for CICs are given in the following paragraphs

36. Eligibility Criteria

(1) The Adjusted Net Worth (ANW) of the CIC shall not be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year. The CIC shall continue to meet the requirement of minimum ANW, post overseas investment. For this purpose, the risk weights applicable shall be as provided for in these directions.

(2) The level of Net Non-Performing Assets of the CIC shall not be more than 1% of the net advances as on the date of the last audited balance sheet.

(3) The CIC shall generally be earning profit continuously for the last three years and its performance shall be satisfactory during the period of its existence.

37. General Conditions

(1) Direct investment in activities prohibited under FEMA shall not be permitted.

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[1]Financial sector for this purpose would mean a sector/ service regulated by a Financial Sector Regulator

(2) The total overseas investment shall not exceed 400% of the owned funds of the CIC.

(3) The total overseas investment in financial sector shall not exceed 200% of its owned funds.

(4) Investment in financial sector shall be only in regulated entities abroad.

(5) Entities set up abroad or acquired abroad shall be treated as wholly owned subsidiaries (WOS) /joint ventures (JV) abroad.

(6) Overseas investments by a CIC in financial /non-financial sector shall be restricted to its financial commitment. However with regard to issuing guarantees/Letter of Comfort in this regard the following shall be noted:

(i) The CIC can issue guarantees / letter of comfort to the overseas subsidiary engaged in non-financial activity;

(ii) CICs must ensure that investments made overseas shall not result in creation of complex structures. In case the structure overseas requires a Non-Operating Holding Company, there shall not be more than two tiers in the structure. CICs having more than one non-operating holding company in existence, in their investment structure, shall report the same to the Bank for a review.

(iii) CICs shall comply with the regulations issued under FEMA, 1999 from time to time;

(iv) An annual certificate from statutory auditors shall be submitted by the CIC to the Regional Office of DoS where it is registered, certifying that it has fully complied with all the conditions stipulated under these Guidelines for overseas investment. The certificate as on end March every year shall be submitted by April 30 each year;

(v) If any serious adverse features come to the notice of the Bank, the permission granted shall be withdrawn. All approvals for investment abroad shall be subject to this condition.

38. Specific Conditions

(1) Opening of Branches

As CICs are non-operating entities, they shall not, in the normal course, be allowed to open branches overseas.

(2) Opening of WOS/JV Abroad by CICs

In the case of opening of a WOS/JV abroad by a CIC, all the conditions as stipulated above shall be applicable. The NoC to be issued by the Bank is independent of the overseas regulators' approval process. In addition, the following conditions shall apply to all CICs:

(i) The WOS/JV being established abroad shall not be a shell company i.e "a company that is incorporated, but has no significant assets or operations." However companies undertaking activities such as financial consultancy and advisory services shall not be considered as shell companies;

(ii) The WOS/JV being established abroad by the CIC shall not be used as a vehicle for raising resources for creating assets in India for the Indian operations;

(iii) In order to ensure compliance of the provisions, the parent CIC shall obtain periodical reports/audit reports at least quarterly about the business undertaken by the WOS/JV abroad and shall make them available to the inspecting officials of the Bank;

(iv) If the WOS/JV has not undertaken any activity or such reports are not forthcoming, the approvals given for setting up the WOS/JV abroad shall be reviewed;

(v) The WOS/JV shall make disclosure in its Balance Sheet the amount of liability of the parent entity towards it and also whether it is limited to equity / loan or if guarantees are given, the nature of such guarantees and the amount involved;

(vi) All the operations of the WOS/JV abroad shall be subject to regulatory prescriptions of the host country.

(3) Opening of Representative Offices Abroad by CICs

(i) CICs shall need prior approval from the DoS, RBI for opening representative offices abroad. The representative offices can be set up abroad for the purpose of liaison work, undertaking market study and research but not for undertaking any activity which involves outlay of funds. The representative offices shall also comply with regulations, if any, in this regard stipulated by a regulator in the host country. As it is not envisaged that such offices would be carrying on any activity other than liaison work, no line of credit shall be extended.

(ii) The parent CICs shall obtain periodical reports about the business undertaken by the representative offices abroad. If the representative offices have not undertaken any activity or such reports are not forthcoming, the Bank may advise the CIC to wind up the establishment.

Chapter - X
Miscellaneous Instructions

39. Participation in Currency Options/Futures

CICs shall participate in the designated currency options / futures exchanges recognized by SEBI as clients, subject to RBI (Foreign Exchange Department) guidelines in the matter, only for the purpose of hedging their underlying forex exposures. Disclosures shall be made in the balance sheet relating to transactions undertaken in the currency futures market, in accordance with the guidelines issued by SEBI.

40. Operative instructions relating to relaxation / modification in Ready Forward Contracts, Settlement of Government Securities Transactions and Sale of securities allotted in Primary Issues

All CICs shall follow the guidelines on transactions in Government Securities as given in the circular IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004 and IDMD.PDRS.4777, 4779 & 4783/10.02.01/2004-05 all dated May 11, 2005 as amended from time to time. In case of doubt they may refer to IDMD.

41. Introduction of Interest Rate Futures

CICs shall participate in the designated interest rate futures(IRF) exchanges recognized by SEBI, as clients, subject to RBI / SEBI guidelines in the matter, for the purpose of hedging their underlying exposures. CICs participating in IRF exchanges shall submit the data in this regard half yearly, in the prescribed format, to the Regional Office of the Department of Supervision in whose jurisdiction their company is registered, within a period of one month from the close of the half year.

42. Raising Money through Private Placement of Debentures etc. by CICs

All CICs shall follow the guidelines on private placement of Non-Convertible Debentures (NCDs) (given in **Annex IX**) for compliance. It may be noted that the provisions of Companies Act, 2013 and Rules issued there under shall be applicable wherever not contradictory.

43. Applicability of Know Your Customer (KYC) Direction, 2016

All CICs shall be required to follow the Know Your Customer (KYC) Direction, 2016, issued and as amended from time to time by the Department of Banking Regulation.

44. Rounding off transactions to the Nearest Rupee by CICs

CICs shall ensure that all transactions, including payment of interest on deposits/ charging of interest on advances, are rounded off to the nearest rupee, i.e. fractions of 50 paise and above shall be rounded off to the next higher rupee and fractions of less than 50 paise should be ignored. Further, they shall also ensure that cheques / drafts issued by clients containing fractions of a rupee are not rejected by them.

45. Ratings for CICs

CICs also issue financial products like Commercial Paper, Debentures etc. to which rating is assigned by rating agencies. The ratings assigned to such products may undergo changes for various reasons ascribed to by the rating agencies. All CICs shall furnish the information about downgrading / upgrading of assigned rating of any financial product issued by them, within fifteen days of such a change in rating, to the Regional Office of the Bank under whose jurisdiction their registered office is functioning.

46. Guidelines on Investment in Insurance - Entry into insurance business

The aspirant CICs shall make an application along with necessary particulars duly certified by their statutory auditors to the Regional Office of Department of Supervision under whose jurisdiction the registered office of the CIC is situated. Any CIC registered with the Bank which satisfies the eligibility criteria given below may be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. No ceiling is prescribed for CICs in their investment in an insurance joint venture. The maximum equity contribution such a CIC can hold in the joint venture company shall be as per IRDA approval.

(1) The eligibility criteria for joint venture participant shall be as under, as per the latest available audited balance sheet.

(i) The owned funds of the CIC shall not be less than ₹500 crore;

(ii) The level of net non-performing assets shall be not more than 1% of the total advances;

(iii) The CIC shall have registered net profit continuously for three consecutive years;

(iv) The track record of the performance of the subsidiaries, if any, of the concerned CIC shall be satisfactory;

(v) The CIC shall comply with all applicable regulations including these Directions. Thus, CICs-ND-SI are required to maintain adjusted net worth which shall be not less than 30% of aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items.

(2) No CIC shall be allowed to conduct such business departmentally. Further, a NBFC (in its group / outside the group) shall normally not be allowed to join an insurance company on risk participation basis and hence shall not provide direct or indirect financial support to the insurance venture.

(3) Within the group, CICs shall be permitted to invest up to 100% of the equity of the insurance company either on a solo basis or in joint venture with other non-financial entities in the group. This shall ensure that only the CIC either on a solo basis or in a joint venture with the group company is exposed to insurance risk and the NBFC within the group is ring-fenced from such risk.

(4) In case where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one CIC may be allowed to participate in the equity of the insurance joint venture. As such participants shall also assume insurance risk, only those CICs which satisfy the criteria given Paragraph 44(1) above, shall be eligible.

(5) CICs shall not enter into insurance business as agents. CICs that wish to participate in insurance business as investors or on risk participation basis shall be required to obtain prior approval of the Bank. The Bank will give permission on case to case basis keeping in view all relevant factors. It shall be ensured that risks involved in insurance business do not get transferred to the CIC.

Notes:

(1) Holding of equity by a promoter CIC in an insurance company or investment in insurance business shall be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This shall include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

(2) CICs exempted from registration with the Bank in terms of these Directions, shall not require prior approval provided they fulfill all the necessary conditions of exemption.

47. Managing Risks and Code of Conduct in Outsourcing of Financial Services by CICs

CICs shall conduct a self-assessment of their existing outsourcing arrangements and bring these in line with the directions as provided at **Annex X**.

48. Technical Specifications for all participants of the Account Aggregator ecosystem

The NBFC-Account Aggregator (AA) consolidates financial information, as defined in para 3.(1)(ix) of Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016, of a customer held with different financial entities, spread across financial sector regulators adopting different IT systems and interfaces. In order to ensure that such movement of data is secured, duly authorised, smooth and seamless, it has been decided to put in place a set of core technical specifications for the participants of the AA ecosystem. Reserve Bank Information Technology Private Limited (ReBIT), has framed these specifications and published the same on its website (www.rebit.org.in).

Every CIC acting either as Financial Information Providers (FIP)[2] or Financial Information Users (FIU) are expected to adopt the technical specifications published by ReBIT, as updated from time to time

49. Submission of data to Credit Information Companies - Format of data to be submitted by Credit Institutions

(1) All CICs ~~(other than those which are purely into investment activities without any customer interface)~~ shall become member of all Credit Information Companies and submit data (including historical data) to them.

(2) In terms of sub-sections (1) and (2) of section 17 of the Credit Information Companies (Regulation) Act, 2005, a credit information company may require its members to furnish credit information as it may deem necessary in accordance with the provisions of the Credit Information Companies (Regulation) Act, 2005 and every such credit institution has to provide the required information to that credit

[2] The definitions of FIP and FIU are as per the Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016, as amended from time to time.

information company. In terms of Regulation 10(a) (ii) of the Credit Information Companies Regulations, 2006, every credit institution shall:

(a) keep the credit information maintained by it, updated regularly on a monthly basis or at such shorter intervals as mutually agreed upon between the credit institution and the credit information company; and

(b) take all such steps which may be necessary to ensure that the credit information furnished by it, is update, accurate and complete.

50. Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures

(1) All CICs shall comply with the instructions contained in the Bank's circular DBOD.No.CID.BC.127/20.16.056/2013-14 dated June 27, 2014 and as amended from time to time; laying down instructions regarding the following:

(i) Creating Awareness about Credit Information Report (CIR);

(ii) Usage of CIR in all Lending Decisions and Account Opening;

(iii) Populating Commercial Data Records in Databases of all Credit Information Companies;

(iv) Standardisation of Data Format;

(v) Constitution of a Technical Working Group;

(vi) Process of Rectification of Rejected Data;

(vii) Determining Data Quality Index;

(viii) Calibration of Credit Score and Standardising Format of CIR;

(ix) Best practices for Banks/FIs.

(2) CICs shall comply with the directive issued under CICRA Sec 11(1) by the Bank vide DBR.No.CID.BC.59/20.16.056/2014-15 dated January 15, 2015.

Chapter - XI
Reporting Requirements

51. The reporting requirements in respect of CICs as prescribed by Department of Supervision shall be adhered to.

52. Consolidation of Financial Statement (CFS)

CICs shall prepare CFS as per provisions of Companies Act, 2013, so as to provide a clear view of the financials of the group as a whole. However, it is possible that entities that meet the definition of group as per extant regulations are not covered under consolidation due to exemptions granted as per statutory provisions/ applicable accounting standards. For such entities which are not included in the consolidation, disclosures shall be made in the indicative format mentioned at paragraph 2 of the Annex V. In the process of consolidation, the auditor of a CIC, as the 'principal auditor', shall use the work of other auditors with respect to the financial information of other respective entities, subject to auditing standards as also guidance notes issued by the Institute of Chartered Accountants of India[3] from time to time.

Chapter -XII
Interpretations

53. For the purpose of giving effect to the provisions of these Directions, the Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Bank shall be final and binding on all the parties concerned. Violation of these directions shall invite penal action under the provisions of Act. Further, these provisions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

Chapter - XIII
Repeal Provisions

54. With the issue of these directions, the instructions / guidelines contained in the following circulars issued by the Bank stand repealed (list as provided below). All approvals / acknowledgements given under the above circulars shall be deemed as

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[3] Standard on Auditing (SA) 600 - "Using the Work of Another Auditor" and Guidance Note on Audit of Consolidated Financial Statements.

given under these directions. Notwithstanding such repeal, any action taken/purported to have been taken or initiated under the instructions/guidelines having repealed shall continue to be guided by the provisions of said instructions/guidelines.

Sr. No.	Notification No.	Date	Subject
1	DNBS.(PD).CC.No.197/03.10.001/2010-11	August 12, 2010	Regulatory Framework for Core Investment Companies (CICs)
2	Notification No.DNBS.(PD).219/CGM (US)-2011	January 5, 2011	Core Investment Companies (Reserve Bank) Directions, 2011
3	DNBS.PD.CC.No.274/03.02.089/2011-12	May 11, 2012	Core Investment Companies (Reserve Bank) Directions, 2011 – Clarification on CICs Issuing Guarantees
4	DNBS.PD.CC.No.311/03.10.01/2012-13	December 06, 2012	Core Investment Companies - Overseas Investment (Reserve Bank) Directions, 2012
5	DNBS.CC.PD.No.312/03.10.01/2012-13	December 07, 2012	Checklist for NBFCs, Non Banking Financial Company-Micro Finance Institutions, Non Banking Financial Company-Factoring Institutions and Core Investment Companies
6	DNBS(PD)CC.No.322/03.10.001/2012-13	April 01, 2013	Core Investment Companies – Guidelines on Investment in Insurance

(Manoranjan Mishra)
Chief General Manager

Annex I

Guidelines on Liquidity Risk[4] Management Framework

Non-deposit taking NBFCs with asset size of ₹1 billion and above, Core Investment Companies and all deposit taking NBFCs (except Type 1 NBFC-ND[5], Non-Operating Financial Holding Company and Standalone Primary Dealer) shall adhere to the guidelines as mentioned herein below. It will be the responsibility of the Board to ensure that the guidelines are adhered to. The internal controls required to be put in place by NBFCs as per these guidelines shall be subject to supervisory review. Further, as a matter of prudence, all other NBFCs are also encouraged to adopt these guidelines on liquidity risk management on voluntary basis. The guidelines deal with following aspects of Liquidity Risk Management framework.

A. Liquidity Risk Management Policy, Strategies and Practices
B. Management Information System (MIS)
C. Internal Controls
D. Maturity profiling
E. Liquidity Risk Measurement – Stock Approach
F. Currency Risk
G. Managing Interest Rate Risk
H. Liquidity Risk Monitoring Tools

A. Liquidity Risk Management Policy, Strategies and Practices

In order to ensure a sound and robust liquidity risk management system, the Board of the NBFC shall frame a liquidity risk management framework which ensures that it maintains sufficient liquidity[6], including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It shall spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

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[4] "Liquidity Risk" means inability of an NBFC to meet such obligations as they become due without adversely affecting the NBFC's financial condition. Effective liquidity risk management helps ensure an NBFC's ability to meet its obligations as and when they fall due and reduces the probability of an adverse situation developing.
[5] Type 1 NBFC-ND as defined in RBI press release dated June 17, 2016.
[6] "Liquidity" means NBFC's capacity to fund the increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses.

Key elements of the liquidity risk management framework are as under:

i) Governance of Liquidity Risk Management

Successful implementation of any risk management process has to emanate from the top management in the NBFC with the demonstration of its strong commitment to integrate basic operations and strategic decision-making with risk management. The Chief Risk Officer appointed by the NBFC in terms of our circular DNBR (PD) CC. No.099/03.10.001/2018-19 dated May 16, 2019 shall be involved in the process of identification, measurement and mitigation of liquidity risks. A desirable organisational set up for liquidity risk management should be as under:

a) Board of Directors

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures of the NBFC to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

b) Risk Management Committee

The Risk Management Committee, which reports to the Board and consisting of Chief Executive Officer (CEO)/ Managing Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk.

c) Asset-Liability Management Committee (ALCO)

The ALCO consisting of the NBFC's top management shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the NBFC. The CEO/MD or the Executive Director (ED) should head the Committee. The Chiefs of Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research may be members of the Committee. The role of the ALCO with respect to liquidity risk should include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of all branches.

d) Asset Liability Management (ALM) Support Group

The ALM Support Group consisting of the operating staff shall be responsible for analysing, monitoring and reporting the liquidity risk profile to the ALCO. Such support groups will be constituted depending on the size and complexity of liquidity risk management in an NBFC.

ii) Liquidity risk Tolerance

An NBFC shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. It should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the NBFC maintains sufficient liquidity.

iii) Liquidity Costs, Benefits and Risks in the Internal Pricing

NBFCs should endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

iv) Off-balance Sheet Exposures and Contingent Liabilities

The process of identifying, measuring, monitoring and controlling liquidity risk should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons.The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, financial derivatives, and, guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialise in times of stress.

v) Funding Strategy - Diversified Funding

An NBFC shall establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources. An NBFC should regularly gauge its capacity to raise funds quickly from each source. There should not be over-reliance on a single source of funding. Funding strategy should also take into account the qualitative dimension of the concentrated behaviour of deposit withdrawal (for deposit taking NBFCs) in typical market conditions and over-relianceon other funding sources arising out of unique business model.

vi) Collateral Position Management

An NBFC shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner. Further, an NBFC should have sufficient collateral to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

vii) Stress Testing

Stress testing shall form an integral part of the overall governance and liquidity risk management culture in NBFCs. An NBFC should conduct stress tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the NBFC’s business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the NBFC is exposed.

viii) Contingency Funding Plan

An NBFC shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the NBFC's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency sources.

ix) Public disclosure

An NBFC shall publicly disclose information (Appendix I) on a quarterly basis on the official website of the company and in the annual financial statement as notes to account that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.

x) Intra Group transfers

With a view to recognizing the likely increased risk arising due to Intra-Group transactions and exposures (ITEs), the Group Chief Financial officer (CFO) is expected to develop and maintain liquidity management processes and funding programmes that are consistent with the complexity, risk profile, and scope of operations of the companies in the Group[7]. The Group liquidity risk management processes and funding programmes are expected to take into account lending, investment, and other activities, and ensure that adequate liquidity is maintained at the head and each constituent entity within the group. Processes and programmes should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among these entities and between these entities and the principal.

B. Management Information System (MIS)

An NBFC shall have a reliable MIS designed to provide timely and forward-looking information on the liquidity position of the NBFC and the Group to the Board and ALCO, both under normal and stress situations. It should capture all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

C. Internal Controls

An NBFC shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and

[7] As defined in the Master **Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016**

evaluates the various components of the NBFC's liquidity risk management process.

D. Maturity Profiling

a) For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool. The Maturity Profile should be used for measuring the future cash flows of NBFCs in different time buckets. The Maturity Profile as given in Appendix I could be used for measuring the future cash flows of NBFCs in different time buckets. The time buckets shall be distributed as under:

(i) 1 day to 7 days
(ii) 8 days to 14 days
(iii) 15 days to 30/31 days (one month)
(iv) Over one month and upto 2 months
(v) Over two months and upto 3 months
(vi) Over 3 months and upto 6 months
(vii) Over 6 months and upto 1 year
(viii) Over 1 year and upto 3 years
(ix) Over 3 years and upto 5 years
(x) Over 5 years

b) NBFCs would be holding in their investment portfolio, securities which could be broadly classifiable as 'mandatory securities' (under obligation of law) and other 'non-mandatory securities'. In case of NBFCs not holding public deposits, all investments in securities, and in case of NBFCs holding public deposits, the surplus securities (held over and above the requirement), shall fall in the category of 'non-mandatory securities'. Alternatively, the NBFCs may also follow the concept of Trading Book as per the extant prescriptions for NBFCs.

c) The NBFCs holding public deposits may be given freedom to place the mandatory securities in any time buckets as suitable for them. The listed non-mandatory securities may be placed in any of the "1 day to 7 days, 8 days to 14 days, 15 days to 30/31 days (One month)", Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by NBFCs. The unlisted non-mandatory securities (eg; equity shares, securities without a fixed term of maturity etc.) may be placed in the "Over 5 years" buckets, whereas unlisted non-mandatory securities having a fixed term of maturity may be placed in the relevant time bucket as per residual maturity. The mandatory securities and listed securities may be marked to market for the purpose of the ALM system. Unlisted securities may be valued as per Prudential Norms Directions.

d) Alternatively, the NBFCs may also follow the concept of Trading Book which is as follows:

i. The composition and volume are clearly defined;
ii. Maximum maturity/duration of the portfolio is restricted;
iii. The holding period not to exceed 90 days;
iv. Cut-loss limit prescribed;
v. Defeasance periods (product-wise) i.e. time taken to liquidate the position on the basis of liquidity in the secondary market are prescribed;

NBFCs which maintain such ‘Trading Books’ and complying with the above standards shall show the trading securities under "1 day to 30/31 days (One month)", Over one month and upto 2 months" and "Over two months and upto 3 months" buckets on the basis of the defeasance periods. The Board/ALCO of the NBFCs shall approve the volume, composition, holding/defeasance period, cut loss, etc. of the ‘Trading Book'. The remaining investments shall also be classified as short term and long term investments as required under Prudential Norms.

e) The policy note recorded by the NBFCs on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ALCO shall be forwarded to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located.

f) Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, viz., 1-30/31 days. The net cumulative negative mismatches in the Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days shall not exceed 10%, 10% and 20% of the cumulative cash outflows in the respective time buckets. NBFCs, however, are expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. NBFCs shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.
g) The Statement of Structural Liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.
h) In order to enable the NBFCs to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, NBFCs shall

estimate their short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

E. Liquidity Risk Measurement – Stock Approach

NBFCs shall adopt a “stock” approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by their Board. The ratios and the internal limits shall be based on an NBFC’s liquidity risk management capabilities, experience and profile. An indicative list of certain critical ratios to monitor re short-term[8] liability to total assets; short-term liability to long term assets; commercial papers to total assets; non-convertible debentures (NCDs)(original maturity of less than one year) to total assets; short-term liabilities to total liabilities; long-term assets to total assets; etc.

F. Currency Risk

Exchange rate volatility imparts a new dimension to the risk profile of an NBFC’s balance sheets having foreign assets or liabilities. The Board of NBFCs should recognise the liquidity risk arising out of such exposures and develop suitable preparedness for managing the risk.

G. Managing Interest Rate Risk (IRR)

a) The operational flexibility given to NBFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way. The immediate impact of changes in interest rates is on NBFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on NBFC's Market Value of Equity (MVE) or Net Worth as the economic value of NBFC's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as ‘earnings perspective’ and ‘economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). There are many analytical techniques for measurement and management of Interest Rate Risk. To begin with, the traditional Gap analysis is considered as a suitable method to measure the Interest Rate Risk in the first place. It is the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and

[8] Less than one year

Value at Risk over time when NBFCs acquire sufficient expertise and sophistication in acquiring and handling MIS.

b) The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i. within the time interval under consideration, there is a cash flow;
ii. the interest rate resets/reprices contractually during the interval;
iii. dependent on RBI changes in the interest rates/Bank Rate;
iv. it is contractually pre-payable or withdrawal before the stated maturities.

c) The Gap Report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier. The difficult task in Gap analysis is determining rate sensitivity. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the NBFC expects to receive it within the time horizon. This includes final principal payment and interim instalments. Certain assets and liabilities to receive/pay rates that vary with a reference rate. These assets and liabilities are repriced at pre-determined intervals and are rate sensitive at the time of repricing. While the interest rates on term deposits are fixed during their currency, the tranches of advances portfolio is basically floating. The interest rates on advances received could be repriced any number of occasions, corresponding to the changes in PLR.

d) The Gaps may be identified in the following time buckets:

i) 1 day to 7 days
ii) 8 days to 14 days
iii) 15 days -30/31 days (One month)
iv) Over one month to 2 months
v) Over two months to 3 months
vi) Over 3 months to 6 months
vii) Over 6 months to 1 year
viii) Over 1 year to 3 years

ix) Over 3 years to 5 years

x) Over 5 years

xi) Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items shall be classified as explained in Appendix - III.

e) The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs than RLAs. The Gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a positive Gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

f) Each NBFC shall set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits shall have a relationship with the Total Assets, Earning Assets or Equity. The NBFCs may work out Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements and fix a prudent level with the approval of the Board/Management Committee. For working out EaR or NIM any of the current models may be used.

g) The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices I & II is the benchmark. NBFCs which are better equipped to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data / empirical studies could classify them in the appropriate time buckets, subject to approval from the ALCO / Board. A copy of the note approved by the ALCO / Board shall be sent to the Regional Office of the Department of Supervision of RBI under whose jurisdiction the registered office of the company is located. These notes may contain 'what if scenario' analysis under various assumed conditions and the contingency plans to face various adverse developments.

h) The present framework does not capture the impact of premature closure of deposits and prepayment of loans and advances on the liquidity and interest rate risks profile of NBFCs. The magnitude of premature withdrawal of deposits at times of volatility in market interest rates is quite substantial. NBFCs shall, therefore, evolve suitable mechanism, supported by empirical studies and behavioral analysis to estimate the future behavior of assets, liabilities and off-balance sheet items to changes in market variables and estimate the probabilities of options.

i) A scientifically evolved internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an important component for effective implementation of ALM System. The transfer price mechanism can enhance the management of margin i.e. lending or credit spread, the funding or liability spread and mismatch spread. It also helps centralising interest rate risk at one place which facilitates effective control and management of interest rate risk. A well defined transfer pricing system also provides a rational framework for pricing of assets and liabilities.

Appendix I

Public disclosure on liquidity risk

(i) Funding Concentration based on significant counterparty (both deposits and borrowings)

Sr No.	Number of Significant Counterparties	Amount (₹ crore)	% of Total deposits	% of Total Liabilities

(ii) Top 20 large deposits (amount in ₹ crore and % of total deposits)
(iii) Top 10 borrowings (amount in ₹ crore and % of total borrowings)
(iv) Funding Concentration based on significant instrument/product

Sr No.	Name of the instrument/product	Amount (₹ crore)	% of Total Liabilities

(v) Stock Ratios:
  (a) Commercial papers as a % of total public funds, total liabilities and total assets
  (b) Non-convertible debentures (original maturity of less than one year) as a % of total public funds, total liabilities and total assets
  (c) Other short-term liabilities, if any as a % of total public funds, total liabilities and total assets

(vi) Institutional set-up for liquidity risk management

Appendix - II

Maturity Profile - Liquidity

Heads of Accounts	**Time-bucket category**
A. Outflows	
1. Capital funds	
a) Equity capital, Non-redeemable or perpetual preference capital, Reserves, Funds and Surplus	In the 'over 5 years' time-bucket.
b) Preference capital - redeemable/non-perpetual	As per the residual maturity of the shares.
2. Gifts, grants, donations and benefactions	The 'over 5 years' time-bucket. However, if such gifts, grants, etc. are tied to specific end-use, then these may be slotted in the time- bucket as per purpose/end-use specified.
3. Notes, Bonds and debentures	
a) Plain vanilla bonds/debentures	As per the residual maturity of the instruments
b) Bonds/debentures with embedded call/put options (including zero-coupon/deep discount bonds)	As per the residual period for the earliest exercise date for the embedded option.
c) Fixed rate notes	As per the residual maturity
4. Deposits:	
a) Public deposits	As per the residual maturity.
b) Inter Corporate Deposits	These, being institutional/wholesale deposits, shall be slotted as per their

	residual maturity
c) Commercial Papers	As per the residual maturity
5. Borrowings	
a) Term money borrowings	As per the residual maturity
b) Bank borrowings in the nature of WCDL, CC etc	Over six months and up to one year
6) Current liabilities and provisions:	
a) Sundry creditors	As per the due date or likely timing of cash outflows. A behavioral analysis could also be made to assess the trend of outflows and the amounts slotted accordingly.
b) Expenses payable (other than interest)	As per the likely time of cash outflow.
c) Advance income received, receipts from borrowers pending adjustment	In the 'over 5 years' time-bucket as these do not involve any cash outflow.
d) Interest payable on bonds/deposits	In respective time buckets as per the due date of payment.
e) Provisions for NPAs	The amount of provision may be netted out from the gross amount of the NPA portfolio and the net amount of NPAs be shown as an item under inflows in stipulated time-buckets.
f) Provision for Investments portfolio	The amount may be netted from the gross value of investments portfolio and the net investments be shown as inflow in the prescribed time-slots. In case provisions are not held security-wise, the provision may be shown on "over 5 years" time bucket.
g) Other provisions	To be bucketed as per the purpose/nature of the underlying transaction.
B. Inflows	
1. Cash	In 1 to 7 day time-bucket.
2. Remittance in transit	---do---
3. Balances with banks (in India only)	
a) Current account	The stipulated minimum balance be shown in 6 months to 1 year bucket. The balance in excess of the minimum balance be shown under Day 1-7 bucket.
b) Deposit accounts/short term deposits	As per residual maturity.
4. Investments (net of provisions)	
a)Mandatory investments	As suitable to the NBFC
b)Non Mandatory Listed	"1 day to 30/31 days (One month)" Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs
c) Non Mandatory unlisted securities (e.g. shares, etc.)	"Over 5 years"
d) Non-mandatory unlisted securities having a fixed term maturity	As per residual maturity
e) Venture capital units	In the 'over 5 year' time bucket.
5. In case Trading book is followed	
Equity shares, convertible preference shares, non-redeemable/perpetual preference shares, shares of subsidiaries/joint ventures and units in open ended mutual funds and other	(i) Shares classified as "current" investments representing trading book of the NBFC may be shown in time buckets of "1 day 7 days, 8 days to 14 days , 15 days

investments .	to 30 days (One month)""Over one month and upto 2 months" and "Over two months and upto 3 months" buckets depending upon the defeasance period proposed by the NBFCs .
	(ii) Shares classified as "long term" investments may be kept in over "5 years time" bucket. However, the shares of the assisted units/companies acquired as part of the initial financing package, may be slotted in the relative time bucket keeping in view the pace of project implementation/time-overrun, etc., and the resultant likely timeframe for divesting such shares.
6. Advances (performing)	
a) Bill of Exchange and promissory notes discounted and rediscounted	As per the residual usance of the underlying bills.
b) Term loans (rupee loans only)	The cash inflows on account of the interest and principal of the loan may be slotted in respective time buckets as per the timing of the cash flows as stipulated in the original/revised repayment schedule.
c) Corporate loans/short term loans	As per the residual maturity
7. Non-performing loans (May be shown net of the provisions, interest suspense held)	
a) Sub-standard	
i) All overdues and instalments of principal falling due during the next three years	In the 3 to 5 year time-bucket.
ii) Entire principal amount due beyond the next three years	In the over 5 years time-bucket
b) Doubtful and loss	
i) All instalments of principal falling due during the next five years as also all overdues	In the over 5 year time-bucket
ii) Entire principal amount due beyond the next five years	In the over 5 year time-bucket
8. Assets on lease	Cash flows from the lease transaction may be slotted in respective time buckets as per the timing of the cash flow.
9. Fixed assets (excluding leased assets)	In the 'over 5 year' time-bucket.
10. Other assets	
(a) Intangible assets and items not representing cash inflows.	In the 'over 5 year' time-bucket.
(b)Other items (such as accrued income, other receivables, staff loans, etc.)	In respective maturity buckets as per the timing of the cashflows.
C. Contingent liabilities	
(a) Letters of credit/guarantees (outflow through devolvement)	Based on the past trend analysis of the devolvements vis-à-vis the outstanding amount of guarantees (net of margins held), the likely devolvements shall be estimated and this amount could be distributed in various time buckets on judgmental basis. The assets created out of devolvements may be shown under respective maturity buckets on the basis of probable recovery dates.
(b) Loan commitments pending disbursal	In the respective time buckets as per the

(outflow)	sanctioned disbursement schedule.
(c) Lines of credit committed to/by other Institutions (outflow/inflow)	As per usance of the bills to be received under the lines of credit.

Note:

Any event-specific cash flows (e.g. outflow due to wage settlement arrears, capital expenses, income tax refunds, etc.) shall be shown in a time bucket corresponding to timing of such cash flows.

a. All overdue liabilities be shown in the 1 to 7 days and 8-14 days days time buckets based on behavioural estimates

b. Overdue receivables on account of interest and instalments of standard loans / hire purchase assets / leased rentals shall be slotted as below:

(i)	Overdue for less than one month.	In the 3 to 6 month bucket.
(ii)	Interest overdue for more than one month but less than seven months (i.e. before the relative amount becomes past due for six months)	In the 6 to 12 month bucket without reckoning the grace period of one month.
(iii)	Principal instalments overdue for 7 months but less than one year	In 1 to 3 year bucket.

Appendix III

Interest Rate Sensitivity

Heads of accounts	Rate sensitivity of time bucket
LIABILITIES	
1. Capital, Reserves & Surplus	Non-sensitive
2. Gifts, grants & benefactions	-do-
3. Notes, bonds & debentures :	
a) Floating rate	Sensitive; reprice on the roll- over/repricing date, shall be slotted in respective time buckets as per the repricing dates.
b) Fixed rate (plain vanilla) including zero coupons	Sensitive; reprice on maturity. To be placed in respective time buckets as per the residual maturity of such instruments.
c) Instruments with embedded options	Sensitive; could reprice on the exercise date of the option particularly in rising interest rate scenario. To be placed in respective time buckets as per the next exercise date.
4. Deposits	
a) Deposits/Borrowings	
i) Fixed rate	Sensitive; could reprice on maturity or in case of premature withdrawal being permitted, after the lock-in period, if any, stipulated for such withdrawal. To be slotted in respective time buckets as per residual maturity or as per residual lock-in period, as the case may be. The prematurely withdrawable deposits with no lock-in period or past such lock-in period, shall be slotted in the earliest /shortest time bucket.
ii) Floating rate	Sensitive; reprice on the contractual roll-over date. To be slotted in the respective time-buckets as per the next repricing date.
b) ICDs	Sensitive; reprice on maturity. To be slotted as per the residual maturity in the respective time buckets.
5. Borrowings:	
a) Term-money borrowing	Sensitive; reprices on maturity. To be placed as per residual maturity in the relative time bucket.
b) Borrowings from others	
i) Fixed rate	Sensitive; reprice on maturity. To be placed as per residual maturity in the relative time bucket.
ii) Floating rate	Sensitive; reprice on the roll-over/ repricing date. To be placed as per residual period to the repricing date in the relative time bucket.
6. Current liabilities & provisions	
a. Sundry creditors b. Expenses payable c. Swap adjustment a/c. d. Advance income received/receipts from borrowers pending adjustment e. Interest payable on	)))) Non-sensitive)))

bonds/deposits f. Provisions	)
7. Repos/ bills rediscounted/forex swaps (Sell / Buy)	Sensitive; reprices on maturity. To be placed as per the residual maturity in respective buckets.
<u>ASSETS</u>:	
1. Cash	Non-sensitive.
2. Remittance in transit	Non-sensitive.
3. Balances with banks in India	
a) In current a/c.	Non-sensitive.
b) In deposit accounts, Money at call and short notice and other placements	Sensitive; reprices on maturity. To be placed as per residual maturity in respective time-buckets.
4. <u>Investments</u>	
a) Fixed income securities (e.g. govt. securities, zero coupon bonds, bonds, debentures, cumulative, non-cumulative, redeemable preference shares, etc.)	Sensitive on maturity. To be slotted as per residual maturity. However, the bonds/debentures valued by applying NPA norms due to non-servicing of interest, shall be shown, net of provisions made, in: i) 3-5 year bucket - if sub-std. norms applied. ii) Over 5 year bucket - if doubtful norms applied.
b) Floating rate securities	Sensitive; reprice on the next repricing date. To be slotted as per residual time to the repricing date.
c) Equity shares, convertible preference shares, shares of subsidiaries/joint ventures, venture capital units.	Non-sensitive.
5. <u>Advances</u> (performing)	
a) Bills of exchange, promissory notes discounted & rediscounted	Sensitive on maturity. To be slotted as per the residual usance of the underlying bills.
b)Term loans/corporate loans / Short Term Loans (rupee loans only)	
i) Fixed Rate	Sensitive on cash flow/ maturity.
ii) Floating Rate	Sensitive only when PLR or risk premium is changed by the NBFCs. The amount of term loans shall be slotted in time buckets which correspond to the time taken by NBFCs to effect changes in their PLR in response to market interest rates.
6. <u>Non-performing loans:</u> (net of provisions, interest suspense and claims received from ECGC)	
a. Sub-standard) b. Doubtful and loss)	To be slotted as indicated at item B.7 of Appendix I.
7. <u>Assets on lease</u>	The cash flows on lease assets are sensitive to changes in interest rates. The leased asset cash flows be slotted in the time-buckets as per timing of the cash flows.

8. Fixed assets (excluding assets on lease)	Non-sensitive.
9. Other assets	
a) Intangible assets and items not representing cash flows.	Non-sensitive.
b) Other items (e.g. accrued income, other receivables, staff loans, etc.)	Non-sensitive.
10. Reverse Repos/Swaps (Buy /Sell) and Bills rediscounted (DUPN)	Sensitive on maturity. To be slotted as per residual maturity.
11. Other (interest rate) products	
a) Interest rate swaps	Sensitive; to be slotted as per residual maturity in respective time buckets.
b) Other Derivatives	To be classified suitably as per the residual maturity in respective time buckets

Annex II

Schedule to the
Balance Sheet of a non-deposit taking Core Investment Company

(₹ in lakhs)

	Particulars		
	Liabilities side :		
(1)	**Loans and advances availed by the CIC inclusive of interest accrued thereon but not paid:**	Amount out-standing	Amount overdue
	(a) Debentures : Secured : Unsecured (other than falling within the meaning of public deposits*) (b) Deferred Credits (c) Term Loans (d) Inter-corporate loans and borrowing (e) Commercial Paper (f) Other Loans (specify nature) * Please see Note 1 below		

	Assets side :	
		Amount outstanding
(2)	**Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :** (a) Secured (b) Unsecured	
(3)	**Break up of Leased Assets and stock on hire and other assets counting towards asset financing activities**	
	(i) Lease assets including lease rentals under	

	sundry debtors : (a) Financial lease (b) Operating lease (ii) Stock on hire including hire charges under sundry debtors: (a) Assets on hire (b) Repossessed Assets (iii) Other loans counting towards asset financing activities (a) Loans where assets have been repossessed (b) Loans other than (a) above	
(4)	<u>**Break-up of Investments**</u> **:** <u>Current Investments</u> : 1. <u>Quoted</u> : (i) Shares : (a) Equity (b) Preference (ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify) 2. <u>Unquoted</u> : (i) Shares : (a) Equity (b) Preference	
	(ii) Debentures and Bonds	

	(iii) Units of mutual funds (iv) Government Securities (v) Others (please specify) Long Term investments : 1. Quoted : (i) Shares : (a) Equity (b) Preference (ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify) 2. Unquoted : (i) Shares : (a) Equity (b) Preference (ii) Debentures and Bonds (iii) Units of mutual funds (iv) Government Securities (v) Others (please specify)	

(5) **Borrower group-wise classification of assets financed as in (2) and (3) above :**

Please see Note 2 below

Category	Amount net of provisions		
	Secured	Unsecured	Total
1. Related Parties **			
(a) Subsidiaries			
(b) Companies in the same Group			
(c) Other related parties			
other than related parties			
Total			

(6) **Investor group-wise classification of all investments (current and**

	long term) in shares and securities (both quoted and unquoted): Please see note 3 below		
	Category	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
	1. Related Parties **		
	(a) Subsidiaries		
	(b) Companies in the same Group		
	(c) Other related parties		
	. Other than related parties		
	Total		

** As per Accounting Standard of ICAI (Please see Note 3)

(7) Other information

Particulars		Amount
(i)	Gross Non-Performing Assets	
	(a) Related parties	
	(b) Other than related parties	
(ii)	Net Non-Performing Assets	
	(a) Related parties	
	(b) Other than related parties	
(iii)	Assets acquired in satisfaction of debt	

Notes:

1. As defined in Core Investment Companies (Reserve Bank) Directions, 2016.

2. Provisioning norms shall be applicable as prescribed in these Directions.

3. All Accounting Standards and Guidance Notes issued by ICAI are applicable including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up/fair value/NAV in respect of unquoted investments shall be disclosed irrespective of whether they are classified as long term or current in (4) above.

Annex III

Data on Pledged Securities

<table>
<tr><td colspan="6">Name of the NBFC Lender</td></tr>
<tr><td colspan="6">PAN</td></tr>
<tr><td colspan="6">Date of Reporting</td></tr>
<tr><td colspan="6">Share holding Information</td></tr>
<tr><th>Name of the Company</th><th>ISIN</th><th>No of Shares held against loans</th><th>Type of the Borrower (Promoter / Non Promoter)</th><th>Name of the Borrower</th><th>PAN of the Borrower</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
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Annex IV – Part (i)

Information about the Proposed Promoters / Directors / Shareholders of the Company

Sr. No.	Particulars Required	Response
1.	Name	
2.	Designation	Chairman / Managing Director / Director / Chief Executive Officer
3.	Nationality	
4.	Age (to be substantiated with date of birth)	
5.	Business Address	
6.	Residential Address	
7.	E-mail address / Telephone number	
8.	PAN Number under Income Tax Act	
9.	Director Identification Number (DIN)	
10.	Social security number / Passport No.*	
11.	Educational / professional qualifications	
12.	Professional Achievement relevant to the job	
13.	Line of business or vocation	
14.	Any other information relevant to the Company	
15.	Name/s of other companies in which the person has held the post of Chairman / Managing Director / Director / Chief Executive Officer	
16.	Name/s of the regulators (RBI, SEBI, IRDA, PFRDA, NHB or any other foreign regulator) of the entities mentioned in which the persons hold directorships	
17.	Name/s of the NBFCs, if any, with which the person is associated as Promoter, Managing Director, Chairman or Director including a Residuary Non-Banking Financial Company, which has been prohibited from accepting deposits / prosecuted by RBI ?	
18.	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the person and / or against any of the entities he is associated with for violation of economic laws and regulations	
19.	Cases, if any, where the person or relatives of the person or the companies in which the person is associated with, are in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
20.	If the person is a member of a professional association / body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him / her or whether he / she has been banned from entry of any professional occupation at any time	
21.	Whether the person attracts any of the disqualification envisaged under Section 164 of the Companies Act, 2013	
22.	Has the person or any of the companies, he / she is associated with, been subject to any investigation at the instance of the Government Department or Agency	
23.	Has the person at any time been found guilty of violations of rules / regulations / legislative requirements by Customs / Excise / Income Tax / Foreign Exchange / Other Revenue Authorities, if so, give particulars	
24.	Experience in the business of NBFC (number of	

	years)	
25.	Equity shareholding in the company	
	(i) No. of shares	
	(ii) No. of shares	
	(iii) Percentage to total paid up equity share capital of the company	
26.	Name/s of the companies, firms and proprietary concerns in which the person holds substantial interest	
27.	Names of the principal bankers to the concerns at 26 above	
28.	Names of the overseas bankers *	
29.	Whether number of directorships held by the person exceeds the limits prescribed under Section 165 of the Companies Act, 2013	
Signature :		
Name :		
Designation :		
Company Seal :		
Date :		
Place :		
* For foreign promoters / directors / shareholders		
Note : (i) Separate form should be submitted in respect of each of the proposed promoters / directors / shareholders		

Annex IV – Part (ii)

Information about Corporate Promoter

Sr. No.	Particulars Required	Response
1.	Name	
2.	Business Address	
3.	E-mail address / Telephone number	
4.	PAN Number under Income Tax Act	
5.	Name and contact details of compliance officer	
6.	Line of business	
7.	The details of their major shareholders (more than 10%) and line of activity, if corporates	
8.	Names of the principal bankers / overseas bankers *	
9.	Name/s of the regulators (RBI,SEBI,IRDA,PFRDA,NHB or any other foreign regulator)	
10.	Name/s of Company/ies in the Group as defined in the Prudential Norms Directions	
11.	Name/s of the company/ies in the Group that are NBFCs	
12.	Specify the names of companies in the group which have been prohibited from accepting deposits / prosecuted by RBI?	
13.	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the corporate for violation of economic laws and regulations	
14.	Cases, if any, where the corporate, is in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
15.	Whether the corporate has been subject to any investigation at the instance of the Government Department or Agency	
16.	Has the Corporate at any time been found guilty of violations of rules / regulations / legislative requirements by Customs / Excise / Income Tax	

	/ Foreign Exchange / Other Revenue Authorities, if so, give particulars	
17.	Has the promoter corporate / majority shareholder of the promoter corporate, if a corporate, ever applied to RBI for CoR which has been rejected	

Signature :
Name :
Designation :
Company Seal :
Date :
Place :
* For foreign corporate

Annex V

Disclosure Requirements

1. Every CIC shall maintain a functional website containing basic information about itself and about its group. It should further contain:
   (i) The Annual Report of the CIC
   (ii) Corporate Governance Report
   (iii) Management Discussion & Analysis covering, *inter alia*, industry structure and developments, risks and concerns for the group and adequacy of internal controls.
   (iv) Other significant information, if any

2. The following shall be disclosed by the CIC with regard to group entities that are not consolidated in the CFS:
   (i) Name of the entity, type of business, size of its assets, debt-equity ratio, and profitability for the last two years
   (ii) Nature and type of exposure on each entity: i) Investments in equity ii) investments in convertible instruments, iii) investments in bonds/ debentures/ other instruments, iv) loans and advances, v) any other
   (iii) Total exposure of the CIC towards non-financial business (entity–wise)
   (iv) Loans and advances to firms/companies in which directors are interested
   (v) Investments by the loanee of the CIC in the shares of parent company and group companies

3. Disclosures to be made in the Annual Financial Statements:

3.1 **Components of ANW and other related information**

			(Amount in ₹ crore)
Particulars		**Current Year**	**Previous Year**
i)	ANW as a % of Risk Weighted Assets		
ii)	unrealized appreciation in the book value of quoted investments		
iii)	diminution in the aggregate book value of quoted investments		
vi)	Leverage Ratio		

3.2 **Investment in other CICs**

a) Total amount representing any direct or indirect capital contribution made by one CIC in another CIC (including name of CICs)
b) Number of CICs with their names wherein the direct or indirect capital contribution exceeds 10% of Owned Funds
c) Number of CICs with their names wherein the direct or indirect capital contribution is less than 10% of Owned Funds

3.3 Off Balance Sheet Exposure

	Particulars	Current Year	Previous Year
i)	Off balance sheet exposure		
ii)	Financial Guarantee as a % of total off-balance sheet exposure		
iii)	Non-Financial Guarantee as a% of total off-balance sheet exposure		
iv)	Off balance sheet exposure to overseas subsidiaries		
v)	Letter of Comfort issued to any subsidiary		

3.4 Investments

				Current Year	Previous Year
					(Amount in ₹ crore)
Particulars				**Current Year**	**Previous Year**
(1)	Value of Investments				
	(i)	Gross Value of Investments			
		(a)	In India		
		(b)	Outside India,		
	(ii)	Provisions for Depreciation			
		(a)	In India		
		(b)	Outside India,		
	(iii)	Net Value of Investments			
		(a)	In India		
		(b)	Outside India.		
(2)	Movement of provisions held towards depreciation on investments.				
	(i)	Opening balance			
	(ii)	Add : Provisions made during the year			
	(iii)	Less : Write-off / write-back of excess provisions during the year			
	(iv)	Closing balance			

3.5 ALM - Maturity pattern of Assets and Liabilities

	1 to 7 days	8 to 14 days	15 days to 30 /31 days	Over 1 month up to 2 Month	Over 2 months up to 3 months	Over 3 month & up to 6 month	Over 6 Month & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Advances											
Investments											
Borrowings											
Foreign Currency assets											
Foreign Currency liabilities											

3.6 **Business Ratios**

Particular	Current Year	Previous Year
Return on Equity (RoE)		
Return on Assets (RoA) Net profit per employee		

3.7 **Provisions and Contingencies**

Provisions and Contingencies shall be presented as under:

(Amount in ₹ Crore)		
Break up of 'Provisions and Contingencies' shown under the Profit and Loss Account	Current Year	Previous Year
Provisions for depreciation on Investment		
Provision towards NPA		
Provision made towards Income tax		
Other Provision and Contingencies (with details)		
Provision for Standard Assets		

3.8 **Concentration of NPAs**

	(Amount in ₹ crore)	Exposure as a % of total assets
Total Exposure to top five NPA accounts		

3.9 **Overseas Assets (for those with Joint Ventures and Subsidiaries abroad)**

Name of the Joint Venture/ Subsidiary	Other Partner in the JV	Country	Total Assets

4. **Disclosure on provisioning in the Balance Sheet**

(i) Every CIC shall separately disclose in its balance sheet the provisions made as per paragraph 17 of the directions without netting them from the income or against the value of assets.

(ii) The provisions shall be distinctly indicated under separate heads of account as under:-

(a) provisions for bad and doubtful debts; and

(b) provisions for depreciation in investments.

(iii) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by a CIC.

(iv) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves shall be written back without making adjustment against them.

(v) CICs with total assets ₹500 crore and above shall disclose the following particulars in the Balance Sheet:

(a) Exposure to real estate sector, both direct and indirect; and

(b) Maturity pattern of assets and liabilities.

5. **Miscellaneous disclosures**

(i) Registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators

(ii) Penalties imposed by RBI and other regulators including strictures or directions on the basis of inspection reports or other adverse findings.

(iii) If the auditor has expressed any modified opinion(s) or other reservation(s) in his audit report or limited review report in respect of the financial results of any previous financial year or quarter which has an impact on the profit or loss of the reportable period, with notes on -

(i) How the modified opinion(s) or other reservation(s) has been resolved; or

(ii) If the same has not been resolved, the reason thereof and the steps which the CIC intends to take in the matter.

Annex VI

'Fit and Proper' Criteria for directors of CICs

Reserve Bank had issued a Directive in June 2004 to banks on undertaking due diligence on the persons before appointing them on the Boards of banks based on the 'Report of the Consultative Group of directors of Banks / Financial Institutions'. Specific 'fit and proper' criteria to be fulfilled by the directors were also advised.

2. The importance of due diligence of directors to ascertain suitability for the post by way of qualifications, technical expertise, track record, integrity, etc. needs no emphasis for any financial institution. It is proposed to follow the same guidelines mutatis mutandis in case of CICs also. While the Reserve Bank does carry out due diligence on directors before issuing Certificate of Registration to an CIC, it is necessary that CICs put in place an internal supervisory process on a continuing basis. Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing directors, CICs shall ensure that the procedures mentioned below are followed and minimum criteria fulfilled by the persons before they are appointed on the Boards:

(a) CICs shall undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. CICs shall obtain necessary information and declaration from the proposed / existing directors for the purpose in the format given at Annex VII.

(b) The process of due diligence shall be undertaken by the CICs at the time of appointment / renewal of appointment.

(c) The boards of the CICs shall constitute Nomination Committees to scrutinize the declarations.

(d) Based on the information provided in the signed declaration, Nomination Committees shall decide on the acceptance or otherwise of the directors, where considered necessary.

(e) CICs shall obtain annually as on 31st March a simple declaration from the directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.

(f) The Board of the CIC must ensure in public interest that the nominated/ elected directors execute the deeds of covenants in the format given in Annex VIII.

Annex VII

Name of CIC: _________________________

Declaration and Undertaking by Director (<u>with enclosures as appropriate as on ______</u>)			
I.	**Personal details of director**		
	a.	Full name	
	b.	Date of Birth	
	c.	Educational Qualifications	
	d.	Relevant Background and Experience	
	e.	Permanent Address	
	f.	Present Address	
	g.	E-mail Address / Telephone Number	
	h.	Permanent Account Number under the Income Tax Act and name and address of Income Tax Circle	
	i.	Relevant knowledge and experience	
	j.	Any other information relevant to Directorship of the CIC	
II	**Relevant Relationships of director**		
	a.	List of Relatives if any who are connected with the CIC (Refer section 6 and Schedule 1A of the Companies Act, 1956 and corresponding provisions of New Companies Act, 2013)	
	b.	List of entities if any in which he/she is considered as being interested (Refer section 299(3)(a) and section 300 of the Companies Act, 1956 and corresponding provisions of New Companies Act, 2013)	
	c.	List of entities in which he/she is considered as holding substantial interest within the meaning of prudential norms as prescribed in these Directions.	
	d.	Name of NBFC in which he/she is or has been a member of the board (giving details of period during which such office was held)	
	e.	Fund and non-fund facilities, if any, presently availed of by him/her and/or by entities listed in II (b) and (c) above from the CIC	
	f.	Cases, if any, where the director or entities listed in II (b)	

		and (c) above are in default or have been in default in the past in respect of credit facilities obtained from the CIC or any other NBFC / bank.	
III	**Records of professional achievements**		
	a.	Relevant professional achievements	
IV.	**Proceedings, if any, against the director**		
	a.	If the director is a member of a professional association/body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him/her or whether he/she has been banned from entry into any profession/ occupation at any time.	
	b.	Details of prosecution, if any, pending or commenced or resulting in conviction in the past against the director and/or against any of the entities listed in II (b) and (c) above for violation of economic laws and regulations	
	c.	Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director	
	d.	Whether the director attracts any of the disqualifications envisaged under section 274 of the Companies Act 1956 and corresponding provisions of New Companies Act, 2013?	
	e.	Has the director or any of the entities at II (b) and (c) above been subject to any investigation at the instance of Government department or agency?	
	f.	Has the director at any time been found guilty of violation of rules/regulations/ legislative requirements by customs/ excise /income tax/foreign exchange /other revenue authorities, if so give particulars	
	g.	Whether the director has at any time come to the adverse notice of a regulator such as SEBI, IRDA, MCA.	
		(Though it shall not be necessary for a candidate to mention in the column about orders and findings made by the regulators which have been later on reversed/set aside in to, it would be necessary to	

		make a mention of the same, in case the reversal/setting aside is on technical reasons like limitation or lack of jurisdiction, etc and not on merit, If the order of the regulator is temporarily stayed and the appellate/ court proceedings are pending, the same also should be mentioned.)	
V.	**Any other explanation / information in regard to items I to III and other information considered relevant for judging fit and proper**		
	Undertaking		
	I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the CIC fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided above.		
	I also undertake to execute the deed of covenant required to be executed by all directors of the NBFC.		
	Place :		Signature
	Date :		
VI.	**Remarks of Chairman of Nomination Committee/Board of Directors of CIC**		
	Place :		Signature
	Date:		

Annex VIII

Form of Deed of Covenants with a Director of a CIC

THIS DEED OF COVENANTS is made this ______ day of ________Two thousand _____ **BETWEEN** _______________, having its registered office at ____________ (hereinafter for the purpose of this Annex, Core Investment Company is being called the “NBFC") of the one part and Mr / Ms_____________ of ______________ (hereinafter called the "Director") of the other part.

WHEREAS

A. The director has been appointed as a director on the Board of Directors of the NBFC (hereinafter called "the Board") and is required as a term of his / her appointment to enter into a Deed of Covenants with the NBFC.

B. The director has agreed to enter into this Deed of Covenants, which has been approved by the Board, pursuant to his said terms of appointment.

NOW IT IS HEREBY AGREED AND THIS DEED OF COVENANTS WITNESSETH AS FOLLOWS :

1. The director acknowledges that his / her appointment as director on the Board of the NBFC is subject to applicable laws and regulations including the Memorandum and Articles of Association of the NBFC and the provisions of this Deed of Covenants.

2. The director covenants with the NBFC that :

(i) The director shall disclose to the Board the nature of his / her interest, direct or indirect, if he / she has any interest in or is concerned with a contract or arrangement or any proposed contract or arrangement entered into or to be entered into between the NBFC and any other person, immediately upon becoming aware of the same or at meeting of the Board at which the question of entering into such contract or arrangement is taken into consideration or if the director was not at the date of that meeting concerned or interested in such proposed contract or arrangement, then at the first meeting of the Board held after he / she becomes so concerned or interested and in case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the director becomes concerned or interested in the contract or arrangement.

(ii) The director shall disclose by general notice to the Board his / her other directorships, his / her memberships of bodies corporate, his / her interest in other entities and his / her interest as a partner or proprietor of firms and shall keep the Board apprised of all changes therein.

(iii) The director shall provide to the NBFC a list of his / her relatives as defined in the Companies Act, 1956 or 2013 and to the extent the director is aware of directorships and interests of such relatives in other bodies corporate, firms and other entities.

(iv) The director shall in carrying on his / her duties as director of the NBFC:

a. use such degree of skill as may be reasonable to expect from a person with his / her knowledge or experience;
b. in the performance of his / her duties take such care as he / she might be reasonably expected to take on his / her own behalf and exercise any power vested in him / her in good faith and in the interests of the NBFC;
c. shall keep himself / herself informed about the business, activities and financial status of the NBFC to the extent disclosed to him / her;
d. attend meetings of the Board and Committees thereof (collectively for the sake of brevity hereinafter referred to as "Board") with fair regularity and conscientiously fulfil his / her obligations as director of the NBFC;
e. shall not seek to influence any decision of the Board for any consideration other than in the interests of the NBFC;
f. shall bring independent judgment to bear on all matters affecting the NBFC brought before the Board including but not limited to statutory compliances, performance reviews, compliances with internal control systems and procedures, key executive appointments and standards of conduct;
g. shall in exercise of his / her judgement in matters brought before the Board or entrusted to him / her by the Board be free from any business or other relationship which could materially interfere with the exercise of his / her independent judgement; and
h. shall express his / her views and opinions at Board meetings without any fear or favour and without any influence on exercise of his / her independent judgement;

(v) The director shall have:

a. fiduciary duty to act in good faith and in the interests of the NBFC and not for any collateral purpose;
b. duty to act only within the powers as laid down by the NBFC’s Memorandum and Articles of Association and by applicable laws and regulations; and
c. duty to acquire proper understanding of the business of the NBFC.

(vi) The director shall:

a. not evade responsibility in regard to matters entrusted to him / her by the Board;
b. not interfere in the performance of their duties by the whole-time directors and other officers of the NBFC and wherever the director has reasons to believe otherwise, he / she shall forthwith disclose his / her concerns to the Board; and
c. not make improper use of information disclosed to him / her as a member of the Board for his / her or someone else's advantage or benefit and shall use the information disclosed to him / her by the NBFC in his / her capacity as director of the NBFC only for the purposes of performance of his / her duties as a director and not for any other purpose.

3. The NBFC covenants with the director that:

(i) the NBFC shall apprise the director about:

a. Board procedures including identification of legal and other duties of Director and required compliances with statutory obligations;
b. control systems and procedures;
c. voting rights at Board meetings including matters in which Director should not participate because of his / her interest, direct or indirect therein;
d. qualification requirements and provide copies of Memorandum and Articles of Association;
e. corporate policies and procedures;
f. insider dealing restrictions;
g. constitution of, delegation of authority to and terms of reference of various committees constituted by the Board;
h. appointments of Senior Executives and their authority;
i. remuneration policy,
j. deliberations of committees of the Board, and
k. communicate any changes in policies, procedures, control systems, applicable regulations including Memorandum and Articles of Association of the NBFC, delegation of authority, Senior Executives, etc. and appoint the compliance officer who shall be responsible for all statutory and legal compliance.

(ii) the NBFC shall disclose and provide to the Board including the director all information which is reasonably required for them to carry out their functions and duties as a director of the NBFC and to take informed decisions in respect of matters brought before the Board for its consideration or entrusted to the director by the Board or any committee thereof;

(iii) the disclosures to be made by the NBFC to the directors shall include but not be limited to the following:

a. all relevant information for taking informed decisions in respect of matters brought before the Board;
b. NBFC’s strategic and business plans and forecasts;
c. organisational structure of the NBFC and delegation of authority;
d. corporate and management controls and systems including procedures;
e. economic features and marketing environment;
f. information and updates as appropriate on NBFC’s products;
g. information and updates on major expenditure;
h. periodic reviews of performance of the NBFC; and
i. report periodically about implementation of strategic initiatives and plans;

(iv) the NBFC shall communicate outcome of Board deliberations to directors and concerned personnel and prepare and circulate minutes of the meeting of Board to directors in a timely manner and to the extent possible within two business days of the date of conclusion of the Board meeting; and

(v) advise the director about the levels of authority delegated in matters placed before the Board.

4. The NBFC shall provide to the director periodic reports on the functioning of internal control system including effectiveness thereof.

5. The NBFC shall appoint a compliance officer who shall be a Senior executive reporting to the Board and be responsible for setting forth policies and procedures and shall monitor adherence to the applicable laws and regulations and policies and procedures including but not limited to directions of Reserve Bank of India and other concerned statutory and governmental authorities.

6. The director shall not assign, transfer, sublet or encumber his / her office and his / her rights and obligations as director of the NBFC to any third party provided that nothing herein contained shall be construed to prohibit delegation of any authority, power, function or delegation by the Board or any committee thereof subject to applicable laws and regulations including Memorandum and Articles of Association of the NBFC.

7. The failure on the part of either party hereto to perform, discharge, observe or comply with any obligation or duty shall not be deemed to be a waiver thereof nor

shall it operate as a bar to the performance, observance, discharge or compliance thereof at any time or times thereafter.

8. Any and all amendments and / or supplements and / or alterations to this Deed of Covenants shall be valid and effectual only if in writing and signed by the director and the duly authorised representative of the NBFC.

9. This Deed of Covenants has been executed in duplicate and both the copies shall be deemed to be originals.

IN WITNESS WHEREOF THE PARTIES HAVE DULY EXECUTED THIS AGREEMENT ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN.

For the NBFC	Director	
By …………………..		
Name:	Name:	
Title:		
In the presence of:		
1.		2. …………………….

Annex IX

Guidelines on Private Placement of NCDs (maturity more than 1 year) by CICs:

1 CICs shall put in place a Board approved policy for resource planning which, inter-alia, shall cover the planning horizon and the periodicity of private placement.

2 The issues shall be governed by the following instructions:

i) The minimum subscription per investor shall be ₹20,000 (Rupees Twenty thousand);

ii) The issuance of private placement of NCDs shall be in two separate categories, those with a maximum subscription of less than ₹1 crore and those with a minimum subscription of ₹1 crore and above per investor;

iii) There shall be a limit of 200 subscribers for every financial year, for issuance of NCDs with a maximum subscription of less than ₹1 crore, and such subscription shall be fully secured;

iv) There shall be no limit on the number of subscribers in respect of issuances with a minimum subscription of ₹1 crore and above; the option to create security in favour of subscribers shall be with the issuers. Such unsecured debentures shall not be treated as public deposits as defined in Core Investment Companies (Reserve Bank) Directions, 2016.

v) A CIC shall not extend loans against the security of its own debentures (issued either by way of private placement or public issue).

3. Tax exempt bonds offered by CICs are exempted from the applicability of the circular.

4. For NCDs of maturity upto one year, guidelines on Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010, dated June 23, 2010, by Internal Debt Management Department, RBI shall be applicable.

Annex X

Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by CICs

1. Introduction

1.1 'Outsourcing' is defined as the NBFC's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the NBFC itself, now or in the future.

'Continuing basis' includes agreements for a limited period.

1.2 NBFCs have been outsourcing various activities and are hence exposed to various risks as detailed in para 5.3. Further, the outsourced activities are to be brought within regulatory purview to a) protect the interest of the customers of NBFCs and b) to ensure that the NBFC concerned and the Reserve Bank of India have access to all relevant books, records and information available with service provider. Typically outsourced financial services include applications processing (loan origination, credit card), document processing, marketing and research, supervision of loans, data processing and back office related activities, besides others.

1.3 Some key risks in outsourcing are Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counterparty Risk, Country Risk, Contractual Risk, Access Risk, Concentration and Systemic Risk. The failure of a service provider in providing a specified service, a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider can lead to financial losses or loss of reputation for the NBFC and could also lead to systemic risks.

1.4 It is therefore imperative for the NBFC outsourcing its activities to ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from such outsourced activities. The directions are applicable to material outsourcing arrangements as explained in para 3 which may be entered into by an NBFC with a service provider located in India or elsewhere. The service provider may either be a member of the group/ conglomerate to which the NBFC belongs, or an unrelated party.

1.5 The underlying principles behind these directions are that the regulated entity shall ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and RBI nor impede effective supervision by RBI. NBFCs, therefore, have to take steps to ensure that the service provider employs the same high standard of care in performing the services as is expected to be employed by the NBFCs, if the activities were conducted within the NBFCs and not outsourced. Accordingly, NBFCs shall not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened.

1.6 (i) These directions are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc. NBFCs which desire to outsource financial services would not require prior approval from RBI. However, such arrangements would be subject to on-site/ off- site monitoring and inspection/ scrutiny by RBI.

(ii) In regard to outsourced services relating to credit cards, RBI's detailed instructions contained in its circular on credit card activities vide DBOD.FSD.BC.49/24.01.011/2005-06 dated November 21, 2005 would be applicable.

2. Activities that shall not be outsourced

NBFCs which choose to outsource financial services shall, however, not outsource core management functions including Internal Audit, Strategic and Compliance functions and decision-making functions such as determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio**.** However, for NBFCs in a group/ conglomerate, these functions may be outsourced within the group subject to compliance with instructions in Para 6. Further, while internal audit function itself is a management process, the internal auditors can be on contract.

3. Material Outsourcing

For the purpose of these directions, material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Materiality of outsourcing would be based on:

- the level of importance to the NBFC of the activity being outsourced as well as the significance of the risk posed by the same;
- the potential impact of the outsourcing on the NBFC on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;

- the likely impact on the NBFC's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- the cost of the outsourcing as a proportion of total operating costs of the NBFC;
- the aggregate exposure to that particular service provider, in cases where the NBFC outsources various functions to the same service provider and
- the significance of activities outsourced in context of customer service and protection.

4. NBFC's role and Regulatory and Supervisory Requirements

4.1 The outsourcing of any activity by NBFC does not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. NBFCs would therefore be responsible for the actions of their service provider including Direct Sales Agents/ Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider. NBFCs shall retain ultimate control of the outsourced activity.

4.2 It is imperative for the NBFC, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.

4.3 Outsourcing arrangements shall not affect the rights of a customer against the NBFC, including the ability of the customer to obtain redress as applicable under relevant laws. In cases where the customers are required to deal with the service providers in the process of dealing with the NBFC, NBFCs shall incorporate a clause in the relative product literature/ brochures, etc., stating that they may use the services of agents in sales/ marketing etc. of the products. The role of agents may be indicated in broad terms.

4.4 The service provider shall not impede or interfere with the ability of the NBFC to effectively oversee and manage its activities nor shall it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.

4.5 NBFCs need to have a robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.

4.6 The service provider, if not a group company of the NBFC, shall not be owned or controlled by any director of the NBFC or their relatives; these terms have the same meaning as assigned under Companies Act, 2013.

5. Risk Management practices for Outsourced Financial Services

5.1 Outsourcing Policy

An NBFC intending to outsource any of its financial activities shall put in place a comprehensive outsourcing policy, approved by its Board, which incorporates, inter alia, criteria for selection of such activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities.

5.2 Role of the Board and Senior Management

5.2.1 Role of the Board

The Board of the NBFC, or a Committee of the Board to which powers have been delegated shall be responsible *inter alia* for the following:

i. Approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;

ii. Laying down appropriate approval authorities for outsourcing depending on risks and materiality;

iii. Setting up suitable administrative framework of senior management for the purpose of these directions;

iv. Undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness and

v. Deciding on business activities of a material nature to be outsourced, and approving such arrangements.

5.2.2 Responsibilities of the Senior Management

i. Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;

ii. Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;

iii. Reviewing periodically the effectiveness of policies and procedures;

iv. Communicating information pertaining to material outsourcing risks to the Board in a timely manner;

v. Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;

vi. Ensuring that there is independent review and audit for compliance with set policies and

vii. Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

5.3 Evaluation of the Risks

The NBFCs shall evaluate and guard against the following risks in outsourcing:

i. Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the NBFC.

ii. Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the NBFC.

iii. Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.

iv. Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.

v. Legal Risk – Where the NBFC is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.

vi. Exit Strategy Risk – Where the NBFC is over-reliant on one firm, the loss of relevant skills in the NBFC itself preventing it from bringing the activity back in-house and where NBFC has entered into contracts that make speedy exits prohibitively expensive.

vii. Counter party Risk – Where there is inappropriate underwriting or credit assessments.

viii. Contractual Risk – Where the NBFC may not have the ability to enforce the contract.

ix. Concentration and Systemic Risk – Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.

x. Country Risk – Due to the political, social or legal climate creating added risk.

5.4 Evaluating the Capability of the Service Provider

5.4.1 In considering or renewing an outsourcing arrangement, appropriate due diligence shall be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement. Due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors. NBFCs shall consider whether the service providers' systems are compatible with their own and also whether their standards of performance including in the area of customer service are acceptable to it. NBFCs shall also consider, while evaluating the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider. Where possible, the NBFC shall obtain independent reviews and market feedback on the service provider to supplement its own findings.

5.4.2 Due diligence shall involve an evaluation of all available information about the service provider, including but not limited to the following:

i. Past experience and competence to implement and support the proposed activity over the contracted period;
ii. Financial soundness and ability to service commitments even under adverse conditions;
iii. Business reputation and culture, compliance, complaints and outstanding or potential litigation;
iv. Security and internal control, audit coverage, reporting and monitoring environment, business continuity management and
v. Ensuring due diligence by service provider of its employees.

5.5 The Outsourcing Agreement

The terms and conditions governing the contract between the NBFC and the service provider shall be carefully defined in written agreements and vetted by NBFC's legal counsel on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. The agreement shall be sufficiently flexible to allow the NBFC to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement shall also bring out the nature of legal relationship between the parties - i.e. whether agent, principal or otherwise. Some of the key provisions of the contract shall be the following:

i. The contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
ii. The NBFC must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;

iii. The contract shall provide for continuous monitoring and assessment by the NBFC of the service provider so that any necessary corrective measure can be taken immediately;

iv. A termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;

v. Controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information shall be incorporated;

vi. There must be contingency plans to ensure business continuity;

vii. The contract shall provide for the prior approval/ consent by the NBFC of the use of subcontractors by the service provider for all or part of an outsourced activity;

viii. It shall provide the NBFC with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the NBFC;

ix. Outsourcing agreements shall include clauses to allow the Reserve Bank of India or persons authorised by it to access the NBFC's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;

x. Outsourcing agreement shall also include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of an NBFC and its books and account by one or more of its officers or employees or other persons;

xi. The outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated and

xii. The NBFC shall have necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

5.6 Confidentiality and Security

5.6.1 Public confidence and customer trust in the NBFC is a prerequisite for the stability and reputation of the NBFC. Hence the NBFC shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.

5.6.2 Access to customer information by staff of the service provider shall be on 'need to know' basis i.e., limited to those areas where the information is required in order to perform the outsourced function.

5.6.3 The NBFC shall ensure that the service provider is able to isolate and clearly identify the NBFC's customer information, documents, records and assets to protect the confidentiality of the information. In instances, where service provider acts as an outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.

5.6.4 The NBFC shall review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.

5.6.5 The NBFC shall immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the NBFC would be liable to its customers for any damages.

5.7 Responsibilities of Direct Sales Agents (DSA)/ Direct Marketing Agents (DMA)/ Recovery Agents

5.7.1 NBFCs shall ensure that the DSA/ DMA/ Recovery Agents are properly trained to handle their responsibilities with care and sensitivity, particularly aspects such as soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer, etc.

5.7.2 NBFCs shall put in place a board approved Code of conduct for DSA/ DMA/ Recovery Agents, and obtain their undertaking to abide by the code. In addition, Recovery Agents shall adhere to extant instructions on Fair Practices Code for NBFCs as also their own code for collection of dues and repossession of security. It is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of the NBFC and that they observe strict customer confidentiality.

5.7.3 The NBFC and their agents shall not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the debtors' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

5.8 Business Continuity and Management of Disaster Recovery Plan

5.8.1 An NBFC shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. NBFCs need to ensure that the service provider periodically tests the Business Continuity and Recovery Plan and may also consider occasional joint testing and recovery exercises with its service provider.

5.8.2 In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, NBFCs shall retain an appropriate level of control over their outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the NBFC and its services to the customers.

5.8.3 In establishing a viable contingency plan, NBFCs shall consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency and the costs, time and resources that would be involved.

5.8.4 Outsourcing often leads to the sharing of facilities operated by the service provider. The NBFC shall ensure that service providers are able to isolate the NBFC's information, documents and records, and other assets. This is to ensure that in appropriate situations, all documents, records of transactions and information given to the service provider, and assets of the NBFC, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

5.9 Monitoring and Control of Outsourced Activities

5.9.1 The NBFC shall have in place a management structure to monitor and control its outsourcing activities. It shall ensure that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

5.9.2 A central record of all material outsourcing that is readily accessible for review by the Board and senior management of the NBFC shall be maintained. The records shall be updated promptly and half yearly reviews shall be placed before the Board or Risk Management Committee.

5.9.3 Regular audits by either the internal auditors or external auditors of the NBFC shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the NBFC's compliance with its risk management framework and the requirements of these directions.

5.9.4 NBFCs shall at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

5.9.5 In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in the branch, posting it on the web-site, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.

5.9.6 Certain cases, like outsourcing of cash management, might involve reconciliation of transactions between the NBFC, the service provider and its sub-contractors. In such cases, NBFCs shall ensure that reconciliation of transactions between the NBFC and the service provider (and/ or its sub-contractor), are carried out in a timely manner. An ageing analysis of entries pending reconciliation with outsourced vendors shall be placed before the Audit Committee of the Board (ACB) and NBFCs shall make efforts to reduce the old outstanding items therein at the earliest.

5.9.7 A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the ACB of the NBFC.

5.10 Redress of Grievances related to Outsourced Services

i. NBFCs shall constitute Grievance Redressal Machinery as contained in RBI's circular on Grievance Redressal Mechanism vide DNBS. CC. PD. No. 320/03.10. 01/2012-13 dated February 18, 2013. At the operational level, all NBFCs shall display the name and contact details (Telephone/ Mobile nos. as also email address) of the Grievance Redressal Officer prominently at their branches/ places where business is transacted. The designated officer shall ensure that genuine grievances of customers are redressed promptly without involving delay. It shall be clearly indicated that NBFCs' Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.

ii. Generally, a time limit of 30 days may be given to the customers for preferring their complaints/ grievances. The grievance redressal procedure of the NBFC and the time frame fixed for responding to the complaints shall be placed on the NBFC's website.

5.11 Reporting of transactions to FIU or other competent authorities

NBFCs would be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of the NBFCs' customer related activities carried out by the service providers.

6. Outsourcing within a Group/ Conglomerate

6.1 In a group structure, NBFCs may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities, etc. Before entering into such arrangements with group entities, NBFCs shall have a Board approved policy and also service level agreements/ arrangements with their group entities, which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. Moreover the customers shall be informed specifically about the company which is actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed.

6.2 While entering into such arrangements, NBFCs shall ensure that these:

a. Are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;

b. Do not lead to any confusion to the customers on whose products/ services they are availing by clear physical demarcation of the space where the activities of the NBFC and those of its other group entities are undertaken;

c. Do not compromise the ability to identify and manage risk of the NBFC on a stand-alone basis;

d. Do not prevent the RBI from being able to obtain information required for the supervision of the NBFC or pertaining to the group as a whole; and

e. Incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the RBI in relation to the activities of the NBFC.

6.3 NBFCs shall ensure that their ability to carry out their operations in a sound fashion would not be affected if premises or other services (such as IT systems, support staff) provided by the group entities become unavailable.

6.4 If the premises of the NBFC are shared with the group entities for the purpose of cross-selling, NBFCs shall take measures to ensure that the entity's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff / agent in the NBFCs premises shall mention nature of arrangement of the entity with the NBFC so that the customers are clear on the seller of the product.

6.5 NBFCs shall not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that they are in any way responsible for the obligations of its group entities.

6.6 The risk management practices expected to be adopted by an NBFC while outsourcing to a related party (i.e. party within the Group / Conglomerate) would be identical to those specified in Para 5 of this directions.

7. Off-shore outsourcing of Financial Services

7.1 The engagement of service providers in a foreign country exposes an NBFC to country risk -economic, social and political conditions and events in a foreign country that may adversely affect the NBFC. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the NBFC. To manage the country risk involved in such outsourcing activities, the NBFC shall take into account and closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based, both during the risk assessment process and on a continuous basis, and establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.

7.2 The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of the NBFC in a timely manner.

7.3 As regards the off-shore outsourcing of financial services relating to Indian Operations, NBFCs shall additionally ensure that

a) Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/ visits of NBFCs internal and external auditors.

b) The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the NBFC in India.

c) The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the NBFC simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the NBFC).

d) The jurisdiction of the courts in the off shore location where data is maintained does not extend to the operations of the NBFC in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India and

e) All original records continue to be maintained in India.

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