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GRC BULLETIN

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RBI

Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

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CORPORATE LAWS

Authority

Reserve Bank of India (RBI)

Circular Date

May 05, 2025

Circular Number

RBI/DoR/2023-24/106

Effective Date

May 05, 2025

CORPORATE LAWS

RBI MASTER DIRECTION – RESERVE BANK OF INDIA (NON-BANKING FINANCIAL COMPANY – SCALE BASED REGULATION) DIRECTIONS, 2023

Applicability: Applicable to all NBFCs

In 2023, the Reserve Bank of India (RBI) strengthened the oversight and regulation of non-banking financial companies (NBFCs) by implementing the Scale-Based Regulation (SBR) framework. By classifying NBFCs into discrete layers according to their size and systemic significance, this progressive paradigm allows for regulatory scrutiny that is calibrated to the risks posed by various NBFC segments. In the quickly changing NBFC sector, the goal is to stimulate growth and innovation while enhancing financial stability, ensuring prudent risk management, and promoting transparency.

Key Points of Scale-Based Regulation:

NBFCs are divided into four tiers for supervision and regulation purposes:

- **Base Layer (BL):** Smaller NBFCs, such as NBFC-Peer-to-Peer (P2P) lenders and Account Aggregators (AA).
- **The Middle Layer (ML):** includes all deposit-taking NBFCs and those with over ₹1,000 crore assets.
- **Upper Layer (UL):** Includes the top ten NBFCs by asset size, as well as other systemically important NBFCs defined by the RBI.
- **Top Layer (TL):** Reserved for NBFCs that pose systemic hazards; ideally, this layer is vacant.

1.Registration and Net Owned Fund (NOF) Requirements:

Revised minimum capital standards have been established:

- NBFC-ICC (Investment & Credit Companies), NBFC-MFI (Microfinance Institutions), and NBFC-Factor targets ₹10 crore by March 31, 2027.
- ₹300 crore to Infrastructure Finance Companies (NBFC-IFC) and Infrastructure Debt Funds (IDF-NBFC).

Prudential norms:

- Most NBFCs' leverage ratios are limited to 7 times to prevent excessive borrowing.
- Minimum Tier 1 capital standards are implemented expressly for gold loan-focused NBFCs to ensure adequate capitalization.

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Income Recognition and Asset Classification:

- Clear standards for identifying Non-Performing Assets (NPAs) and Special Mention Accounts (SMAs) are provided.
- A glide route is recommended for fully implementing the 90-day NPA norm by March 2026.

Investment and disclosure norms:

- Income recognition from investments is governed on an accrual or cash basis, depending on the asset type.
- Financial statements must have detailed disclosure standards to increase openness.

Governance and Fair Practice Code:

- Applies to all layers with variable degrees of stringency.
- NBFCs must meet the RBI's fit and proper criteria, audit standards, risk management rules, and maintain board independence.

Provisions:

- Frameworks are established for distressed asset resolution, restructuring, and natural disasters.
- Investors in non-bank financial institutions must follow Financial Action Task Force (FATF) requirements.

SOURCE: Click here for more details

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