

# INDIA LEGAL UPDATE

January 30, 2024

## RBI tweaks credit, investment concentration norms for NBFCs

<b>Notification Date:</b>
January 15, 2024
<b>Effective Date:</b>
April 15, 2024
<b>Legal Framework:</b>
Reserve Bank of India Act, 1934
<b>Government Authority:</b>
Reserve Bank of India (RBI)
<b>Weblink:</b>
<a href="#">RBI Notification</a>

### LEGAL UPDATE

**Target:** All Non-Banking Financial Companies (NBFCs) including Housing Finance Companies

The guidelines on large exposure framework are applicable to upper-layer NBFCs, while the base and middle-layer companies are governed by credit and investment concentration norms prescribed under the revised regulatory framework for NBFCs.

#### Regulations for NBFC-Base Layer (BL)

**Internal board-approved policy:** Base-layer NBFCs must have an internal board-approved policy for credit and investment concentration limits for a single borrower as well as a single group of borrowers.

#### Computation of exposure – Credit Risk Transfer Instruments

Aggregate exposure to a counterparty is calculated as:

- On-balance sheet exposures are reckoned at the outstanding amount
- Off-balance sheet exposures are converted into credit risk equivalent by applying the credit conversion factor prescribed under capital requirements.

To be eligible as a credit risk transfer instrument, guarantees shall be direct, explicit, irrevocable, and unconditional.

The exposures shall also be offset with the following credit risk transfer instruments:

- a. Cash margin/caution money/security deposit held as collateral on behalf of the borrower against the advances for which the right to set off is available.
- b. Central Government guaranteed claims which attract zero percent risk weight for capital computation.
- c. State Government guaranteed claims which attract 20% risk weight for capital computation.

d. Guarantees issued under the Credit Guarantee Schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) subject to meeting the conditions of circular on 'Review of Prudential Norms – Risk\_Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)'.

### Exemptions from credit/investment concentration norms

In addition to the exposures already exempted from credit/investment concentration norms, NBFCs (including HFCs) shall also be exempted in case of exposure:

- a. to the Government of India and State Governments which are eligible for zero percent risk weight under capital regulations applicable to NBFC; and
- b. where the principal and interest are fully guaranteed by the Government of India

These changes are introduced to ensure uniformity and consistency in the computation of concentration norms among NBFCs.

### Queries?

If you have any queries about this article, please reach out to our experts:



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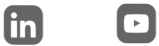
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