FIDC NEWS

Finance Industry Development Council

(A Self-Regulatory Organisation for Non-Banking Finance Companies (NBFCs) registered with RBI)

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Dear Friends,

Please accept my greetings for the oncoming festive season. We now find ourselves in a crucial phase of the economy both in the global and domestic environment. RBI has recently come out with its suggested norms for regulating NBFCs which make the playing conditions tighter for all us. This has not been new to us since even as long back as the late 90s, RBI's prudential norms did change the functioning platform suddenly and diametrically leading to the closure of businesses by many who could not comply with the new regulations. This time again we see that Capital Adequacy ratios, provisioning norms and threshold level minimum asset sizes suggested make it difficult for many companies to survive. One feels that such changes in the regulations for an industry which manages thousands of crores of assets quite efficiently is a bit undeserved. We have a proven track record of achieving the much talked about 'financial inclusion' and last mile credit delivery which have eluded the public sector. It is time for all of us to unite together and impress upon the policy makers the value addition that our industry provides in reaching the 'unbanked' retail customer. We need to come together and push our agenda of creating a healthy work environment for all financial service providers in the country, whether big or small. The fact that we have reached the geographies and customers which have not been able to be serviced by the banks in itself is proof of the fact that regulations applicable to banks if applied on us also will lead to the same incapability in due course of time and this is definitely not the purpose of our Finance minister's intentions when he wanted to encourage the private sector to enter the banking business. We have the wherewithal to achieve what the government wants. Fragmented cases and pleads in the corridors of power by individual members have always tend to be ignored. We need to speak in one voice and our unity in doing so will amplify this voice loud enough for the policy makers to hear.

- R. Sridhar, Chairman, FIDC

Regulatory Perimeter

1. **Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs);** RBI/2011-12/71, DBOD.BP.BC.No.20 /21.04.172/2011-12, issued to banks on July 1, 2011
2. **Master Circular - Lending to Micro, Small & Medium Enterprises (MSM]Sector;** RBI/2011-12/83; RPCD.SME & NFS. BC. No. 09/06.02.31/ 2011-12 issued to banks on July 1, 2011
3. **Notification as amended upto June 30, 2011 "Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008;** RBI/2011-12/20; DNBS (PD) CC No. 226/03.02.001/2011-12 issued to NBFCs on July 1, 2011
4. **Notification as amended upto June 30, 2011 – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998;** RBI/2011-12/17; DNBS (PD) CC No 223/03.02.001/2011-12

AT A GLANCE

- Dear Friends .... R. Sridhar, Chairman, FIDC 1
- Regulatory Perimeter 1
- Organised NBFCs have actually reduced costs for the end transport operators ....T. T. Srinivasaraghavan 3
- New Road Map for NBFCs 4
- Profile of the NBFC Sector .....RBI Working Group on the issues and concerns in the NBFC Sector 5
- SEBI Moves 7
- Credit Ratings: conflict of interest .... Rupert Neate 8
- Legal Eagle 9
- Bring whole NBFC sector at par: .... Raman Aggarwal 9
- Periscope 10
- Beyond Boundaries 11
- FIDC in Action 12

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5. Master Circular – KYC Guidelines – Anti Money Laundering Standards - PMLA, 2002 – Obligations of NBFCs;-RBI/2011-12/25- RBI -DNBS (PD) CC No.231/03.10.42/2011-12

6. Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; RBI/2011-12/18-DNBS (PD) CC No.224/ 03.02.001/ 2011-12

7. Master Circular-Returns to be submitted by NBFCs; RBI/2011-12/21-DNBS.PD.CC. No.227/ 03.10.042/ 2011-12

8. Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977; RBI/2011-12/24; DNBS (PD) CC No. 230/ 03. 02.001/2011-12

9. Master Circular 2011-Opening of Branch-Subsidiary-Joint Venture-Representative office or Undertaking Investment Abroad by NBFCs; RBI/2011-12/101; DNBS (PD) CC No. 238/03.02.001/2011-12

10. Master Circular - Frauds – Future approach towards monitoring of frauds in NBFCs; RBI/2011-12/23-DNBS.PD.CC. No.229/03.10.042/2011-12

11. Master Circulars - Miscellaneous Instructions to All Non-Banking Financial Companies; RBI/2011-12/30-DNBS (PD) CC No.236 /03.02.001/2011-12

12. Master Circulars - Miscellaneous Instructions to NBFC-ND-SI; RBI/2011-12/29; DNBS (PD) CC No.235/03.10.001/2011-12

13. Master Circular - Lending To Priority Sector [see for eligibility of securitized assets of NBFCs]; RBI/2011-12/107; RPCD.CO.Plan.BC 10 /04.09.01/ 2011-12 dated July 1, 2011 [issued on July 5]

14. Notification- Returns to be submitted by NBFCs - Revised Formats RBI/2011-12/195; DNBS(PD).CC. No.243/03.02.02/2011-12

RBI releases Draft Guidelines for Licensing of New Banks in the Private Sector

The RBI released the "Draft Guidelines for "Licensing of New Banks in the Private Sector". It has sought comments on the draft guidelines, which may be sent by October 31.

Key features of the draft guidelines are:

(I) Eligible promoters: Entities / groups in the private sector, owned and controlled by residents, with diversified ownership, sound credentials and integrity and having successful track record of at least 10 years will be eligible to promote banks. Entities / groups having significant (10 per cent or more) income or assets or both from real estate construction and / or broking activities individually or taken together in the last three years will not be eligible.

(ii) Corporate structure: New banks will be set up only through a wholly owned Non-Operative Holding Company (NOHC) to be registered with the Reserve Bank as a non-banking finance company (NBFC) which will hold the bank as well as all the other financial companies in the promoter group.

(iii) Minimum capital requirement: Minimum capital requirement will be ' 500 crore. Subject to this, actual capital to be brought in will depend on the business plan of the promoters. NOHC shall hold minimum 40 per cent of the paid-up capital of the bank for a period of five years from the date of licensing of the bank. Shareholding by NOHC in excess of 40 per cent shall be brought down to 20 per cent within 10 years and to 15 per cent within 12 years from the date of licensing of the bank.

(iv) Foreign shareholding: The aggregate non-resident shareholding in the new bank shall not exceed 49 per cent for the first 5 years after which it will be as per the extant policy.

(v) Corporate governance: At least 50 per cent of the directors of the NOHC should be independent directors. The corporate structure should be such that it does not impede effective supervision of the bank and the NOHC on a consolidated basis by the Reserve Bank.

(vi) Business model: Should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

(vii) Other conditions:

• The exposure of bank to any entity in the promoter group shall not exceed 10 per cent and the aggregate exposure to all the entities in the group shall not exceed 20 per cent of the paid-up capital and reserves of the bank.

• The bank shall get its shares listed on the stock exchanges within two years of licensing.

• The bank shall open at least 25 per cent of its branches in unbanked rural centres (population upto 9,999 as per 2001 census)

• The promoter / promoter group with an existing NBFC, if considered eligible for a bank licence, will have two options: (a) Promote a new bank, if some or all the activities undertaken by it are not permitted to be undertaken by banks departmentally. In such cases, the activities undertaken by the NBFC which banks are allowed to undertake departmentally, will have to be transferred to the new bank, or (b) Convert itself into a bank, if all the activities undertaken by it are allowed to be undertaken by a bank departmentally. Under both options, the promoters will have to first set up a NOHC. Certain additional requirements have been stipulated by the RBI. [RBI Press Release, 29 Aug.]

RBI allows pre-paid cards for corporate reimbursements

Indian companies can now pay perks to their employees in plastic money. In a move that could pave the way for cashless settlements of perquisites and reimbursements, RBI allowed banks to issue pre-paid payment instruments to corporates for onward issuance to their employees. "Pre-paid payment instruments can be issued only to corporate entities listed in any of the stock exchanges in India," said RBI in its notification. The pre-paid card can be loaded with a maximum value outstanding of 50,000. According to RBI norms, the corporate would be responsible for the verification of identity of the employee.
[ET Bureau Aug 5]

RBI issues norms for setting up of IDFs by banks, NBFCs

The Reserve Bank on Sept. 23 announced guidelines for permitting banks and NBFCs to set up Infrastructure Debt Funds (IDFs), to help meet long-term financing for the sector. IDFs would be set up either as Mutual Funds (MFs) or NBFCs, RBI said in a statement.

Outlining the parameters for setting up IDF-MF, the central bank said an NBFC sponsoring IDF-Mutual Fund should have a minimum Net Owned Funds (NOF) of Rs 300 crore and capital adequacy ratio of 15 per cent. Besides, its net NPAs should be less than 3 per cent of net advances and the NBFCs should have been in existence for at least 5 years and earning profits for the last three years, it said. Banks and NBFCs would be eligible to sponsor (as defined by SEBI Regulations for Mutual Funds) IDFs as Mutual Funds with prior approval of RBI, it said. It also said that the SEBI has amended the (Mutual Funds) Regulations to provide regulatory framework for IDF-MFs.

As for the setting up of IDF–NBFC by banks and non- banking finance institutions, sponsors of NBFC-IDFs will have to contribute a minimum equity of 30 per cent and a maximum equity of 49 per cent of the IDF-NBFC. Banks and NBFC-Infrastructure Finance Company (NBFC-IFCs) may sponsor IDFs as NBFCs with prior approval by RBI. Post investment in the IDF, the sponsor must maintain minimum CRAR and NOF prescribed for IFCs. The IDF should be assigned a minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA or

HEARTY CONGRATULATIONS

Shri Anand Sinha
Deputy Governor,
Reserve Bank of India

HEARTY CONGRATULATIONS

Shri P. Vijaya Bhaskar
Executive Director,
Reserve Bank of India

equivalent rating by any other accredited rating agencies, it said. Tier II capital cannot exceed Tier I. Minimum capital adequacy ratio should be 15 per cent of risk weighted assets, it added. Detailed guidelines for setting up IDFs banks and NBFCs would be issued separately, it said.
[PTI, Sep 23 2011]

RBI may regulate jewellers' gold saving schemes

The Reserve Bank of India (RBI) is likely to bring some regulation to protect those people who save money with the jewellers in monthly saving schemes for buying gold. Almost all jewellers in major cities such as Mumbai, Ahmedbad, Chennai, and Bangalore are virtually working like NBFCs, without permission from the RBI. They have launched various gold saving schemes, encouraging the people to buy gold at the end of their saving term. In some instances, the jewellers have disappeared with the people's savings. "Now the RBI is looking at it and we expect it to bring some regulation in this regard," said Mr Ajay Mitra, Managing Director, India and Middle East, World Gold Council (WGC), said. Also, he said, the Union Ministry of Consumer Affairs will be making hallmarking of gold compulsory from January next for all the 3.5-lakh jewellers across India. Due to increasing gold prices and the buyer's preference to buy from reputed jewellers, some of the smaller jewellers are now becoming franchisees of the bigger ones, he said.
[Business Line, Aug. 19]

Single 'know your customer' form may replace separate KYCs

The finance ministry has proposed replacing the separate 'know your customer' (KYC) checks run by banks and financial institutions with a single, more stringent one. The proposal, being examined by all financial sector regulators, was discussed at a recent meeting of the Financial Stability Development Council, or FSDC. "Multiple KYC make the investing process cumbersome," a finance ministry official said, adding that the proposal was under "active consideration". KYC is the due diligence done by banks and financial institutions to identify and locate an entity or individual to ensure that financial transactions are not a part of money laundering or terrorist financing.

RBI constitutes a panel to review priority sector lending

RBI constituted a 9-member panel to look into various issues related to priority sector lending, including review of loan limits under the segment. The committee, headed by Union Bank of India Chairman and Managing Director M V Nair, will revisit the eligibility criteria for classification of bank loans as priority sector, RBI said in a statement. "It will review nature of activities and types of borrowers (individuals versus institutions, corporate and partnership firms) of loans under priority sector segment," the Reserve Bank said.

The terms of reference of the panel include review of limits on loan amounts. It will also review appropriate documentation and due diligence thresholds, to ensure that loans extended by banks are for the eligible categories of purposes and borrowers, which need special attention and treatment, it said. Besides, the panel will consider the desirability, or otherwise, of capping interest rate on priority loans. The panel, which has to submit its report in four months, will also review the current allocation mechanism for Rural Infrastructure Development Fund (RIDF) and other funds. [PTI, Aug. 25]

RBI issues revised draft norms for securitisation of loans

The RBI issued revised draft norms to regulate the growth in securitisation of bank loans. This may increase the securitisation of retail assets like home and consumer durables. The banking regulator has, for the first time, framed norms for bilateral sale of loans. These loans involve the transfer of any single standard asset or portfolio of assets. [BS Reporter, 28 Sept.]

RBI tightens return filing format for NBFCs

The RBI on Sept. 22 tightened the return filing format for NBFCs under which they would have to make disclosures about their deposit and lending activities to the central bank more frequently. As per the new regulation, deposit taking NBFCs would have to submit reports on deposits and prudential norms to the RBI on quarterly basis, as against annual and half-yearly basis respectively earlier. Similarly, the apex bank asked non-deposit taking NBFCs to file statements on capital funds, risk weighted assets, risk asset ratio, among others on quarterly basis. The regulations relating to reporting about liquid asset, exposure to capital markets, among others have been retained.

The deposit taking NBFCs will have to file quarterly returns on liquid assets to the RBI. Also, NBFCs with a total assets of Rs 100 crore and above will file monthly returns on exposure to capital market, the notification said. Non-deposit taking NBFCs would continue to file monthly returns on important financial parameters. The RBI said the returns, under the new norms, concerning deposits, prudential norms for deposit taking NBFCs and statement of capital funds, risk weighted assets, risk asset ratio for non-deposit taking NBFCs should be submitted for the July-September quarter. All these filings will have to be done by NBFCs to the central bank in the revised formats notified by the apex bank, the RBI said. [Business Standard, 24 Sept.]

Organised NBFCs have actually reduced costs for the end transport operators

There have been a slew of regulatory actions over the last 6-9 months. Some of them are driven by concerns about regulatory arbitrage. The argument is, NBFCs for most part are like banks, but they don't have the rigour in regulation that banks are subject to. There is also the concern that banks are getting around this by setting up NBFCs and then indirectly doing the things which banks cannot do. But there are several NBFCs which are not bank promoted. These NBFCs were neither formed nor do they exist for regulatory arbitrage. These are well tested business models.

It is for all to see that the NIMs of NBFCs 15 years ago and today, they have come down dramatically.

If one looks at it in the context of financial inclusion too, the organised NBFCs have actually reduced costs for the end transport operator. Because of scale and greater expertise going into the business, tightening of processes and dramatic improvement in efficiencies, the end user has benefited.

No one can agree that there is huge profiteering that is going on in this business. The difference is largely because our models are less capital intensive than the banks, and we are more fleet-footed and, therefore, we are able to manage these higher margins. We also take greater risks because of the kind of customer segments that we finance are definitely from a bank perspective, riskier segments. But we are able to take these risks because our understanding is superior, or collection mechanisms are superior or our relationships with customers are far stronger. Because of these things, we manage our risks better and our delinquencies are better.

It is unfair to simply say that banks have a certain NIM and NBFCs have a certain higher NIM and, therefore, this should be narrowed.

It is unfortunate that we are not being included in the larger canvas when people talk about financial inclusion. Yet, the history of NBFCs goes back to financial inclusion. When we started financing the road transport sector, nobody would touch it other than the unorganised money lenders. We were the ones who first ventured into that segment. These people had nothing but their integrity and their willingness to work hard. They couldn't produce a piece of paper and we still lent to those people. And today, the results are there for all to see.

T. T. Srinivasaraghavan

Mrs. Usha Thorat
Director,
Centre for Advanced Financial Research and Learning, RBI.

NEW ROAD MAP FOR NBFCs

The RBI Working Group lays down a road map for appropriate Regulatory and Supervisory measures for NBFCs with an aim to create strong and resilient financial sector.

RBI panel prescribes new regulatory framework for NBFC

A committee headed by former RBI Deputy Governor Usha Thorat, set up by the RBI recommended that the provisioning and asset classification norms of NBFCs be brought in line with these for commercial banks. Like banks, the liquidity ratio may be introduced for all registered NBFCs, the panel also suggested. It also prescribed that Tier-I capital of systemically important NBFCs should be at 12 per cent within three years of registration. The Working Group was constituted to review the existing regulatory and supervisory framework of non-banking finance companies (NBFCs) with special focus on the risks in the sector.

Key recommendations of the Working Group are: [1] The minimum net owned fund (NOF) requirement for all new NBFCs wanting to register with the RBI could be retained at the present Rs. 2 crore till the RBI Act is amended. The RBI is asked to insist on a minimum asset size of more than Rs. 50 crore for registering any new NBFC. Existing NBFCs below this limit may deregister or be asked to seek a fresh certificate of registration at the end of two years; [2] NBFCs not accessing public funds may be exempted from registration provided their assets are below Rs. 1000 crore; [3] Any transfer of shareholding, direct or indirect, of 25 per cent and above, change in control, merger or acquisition of any registered NBFC should have prior approval of the RBI; [4] The twin-criterion of assets and income for determining the principal business of an NBFC should be increased to 75 per cent of the total asset and 75 per cent of the total income, respectively. A time period of three years may be given to fulfil revised principal business criteria; [5] Tier I capital for Capital to Risk Weighted Assets Ratio (CRAR) purposes may be specified at 12 per cent to be achieved in three years for all registered deposit taking and non-deposit taking NBFCs;

[6] Liquidity ratio may be introduced for all registered NBFCs such that cash, bank balances and holdings of government securities fully cover the gaps, if any, between cumulative outflows and cumulative inflows for the first 30 days;

[7] Asset classification and provisioning norms similar to banks to be brought in phased manner for NBFCs. Suitable income tax deduction akin to banks may be allowed for provisions made under the regulations. Accounting norms applicable to banks may be applied to NBFCs; [8] NBFCs may be subject to regulations similar to banks while lending to stock brokers and merchant banks and similar to stock brokers, as specified by the SEBI, while undertaking margin financing; [9] Financial conglomerate approach may be adopted for supervision of larger NBFCs that have stock brokers and merchant bankers in the group; [10] Government owned entities that qualify as NBFCs may comply with the regulatory framework applicable to NBFCs at the earliest.

[11] Board approved limits for bank's exposure to real estate may be made applicable for the bank group as a whole, where there is an NBFC in the group. The risk weights for NBFCs that are not sponsored by banks or that do not have any bank as part of the group may be raised to 150 per cent for capital market exposures and 125 per cent for Commercial Real Estate (CRE) exposures. In case of bank sponsored NBFCs, the risk weights for Capital Market Exposures (CME) and CRE may be the same as specified for banks;

[12] NBFCs may be given the benefit under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002;

[13] Captive NBFCs, the business models of which focus mainly (90 per cent and above) on financing parent company's products, may maintain Tier I capital at 12 per cent from the time of registration. Supervisory risk assessment of such companies should take into account the risk of the parent company; [14] For the purpose of applicability of registration and supervision, the total assets of all NBFCs in a group should be taken together to determine the cut off limit of Rs. 100 crore; [15] All NBFCs with assets of Rs.1000 crore and above, whether listed or not, should be required to comply with Clause 49 of SEBI Listing Agreements including mandatory disclosures; [16] Disclosure for NBFCs with assets over Rs 100 crore may include provision coverage ratio, liquidity ratio, asset liability profile, extent of financing of parent company products, movement of non-performing assets (NPAs), off-balance sheet exposures, structured products and securitisations / assignments. [17] NBFCs with assets of Rs. 1000 crore and above should be inspected comprehensively on an annual basis with an annual stress test carried out to ascertain their vulnerability.

[BS Reporter/RBI Press release, August 30]

Asset financing NBFCs unhappy with RBI's risk weightage norms

The RBI working group's recommendations on the NBFC sector has failed to acknowledge the consistency shown by asset financing NBFCs in lowering credit losses and maintaining healthy retail portfolio, feel companies in the business. The recommendations suggested an increase in the risk weightage for NBFCs not sponsored by banks from 100 per cent to 150 per cent for those in the capital markets sector and to 125 per cent for those in the commercial real estate sector.

However, companies that are in the business of asset financing, such as lending for purchase of commercial vehicles, tractors or construction equipment, which have been maintaining a healthy portfolio over the years, have not been given a preferential risk weightage, industry leaders said. "If private sector lending is important for the sector, then the differential risk of various asset classes financed should also be recognised. That is the only way capital can be used optimally," reasoned GS Sundararajan, MD of Shriram Capital. Despite a possible slowdown expected in the automotive sector this year and a rising interest rate scenario, asset-financing companies have posted consistent growth in business without any adverse impact on the non-performing assets front.

"Asset financing NBFCs have consistently demonstrated their ability to manage retail portfolios with low levels of credit losses, and it is only fair that this be duly recognised by RBI. The report has not touched upon the NBFC sector's plea for preferential risk weightage for the lower risk assets financed by them," says TT Srinivasaraghavan, MD of Sundaram Finance.

Asset financing companies are planning to take the issue to the regulator to ensure that the lower risk assets financed by them are acknowledged and they are provided a lower risk weightage compared with other NBFCs, said a senior official with Magma Fincorp. "We will continue our plea with the regulator to consider assigning differential risk weightage for different classes of assets, based on their risk categorisation," Srinivasaraghavan said. "The recommendations will make prudential norms tighter for all the players. But what is also heartening is the recognition of the role played by the NBFC sector," he added.

"The provision requirement would be a bit stringent. It will require any assets overdue for more than 90 days to be treated as non-performing. Currently, only accounts overdue for more than 180 days are treated as NPAs, so the new norms will mean higher provisioning. Secondly, the Tier-I capital requirement at 12 per cent will impact the smaller players," said R Sridhar, Managing Director Shriram Transport Finance Company. However, he added higher capital adequacy requirement would not impact major NBFCs, as they normally keep Tier-I capital around 15 per cent. Shriram Transport Finance, the largest commercial vehicle financer in the country, has Tier-I capital at 18 per cent.

"Due to the higher provisioning norms, a substantial amount of money would be unproductive and it will impact the cash flow reserves, thereby impacting the margins," said Hemant Kenoria, chairman and managing director, SREI Infrastructure and Finance Ltd. [Financial Chronicle/BS Reporter, Aug 30]

NBFCs' profits to be hit marginally by new RBI norms: Crisil

Ratings agency Crisil said the Reserve Bank's recommendations on NBFCs will structurally strengthen the players. But "there could be short-term adverse impact on NBFCs' profitability – the average return on assets could drop by 25 to 30 basis points (bps), driven by increased provisioning," the agency added. Additionally, the recommendations, if implemented, will result in a drop in the capital adequacy ratios of the NBFCs lending to the volatile capital markets and commercial real estate segment by up to 3 per cent. "The change in the asset classification norms will result in a significant increase in NBFCs' reported gross NPA ratios. The gross NPA ratio for the sector, which was around 2.8 per cent as of March 2011, would become 4.8 per cent," Crisil Ratings Director Pawan Aggarwal said. However, the agency also said it does not expect any material impact on NBFCs' credit risk profiles following this.

A Reserve Bank panel advocated tough new norms for NBFCs with the aim to strengthen the regulatory and supervisory framework for such lenders. Besides prescribing threshold limits, the Working Group headed by former RBI Deputy Governor Usha Thorat, suggested that NBFCs be subjected to the same regulations as banks with regard to provisioning norms and lending to stock brokers and merchant bankers. "The sector will emerge structurally stronger over the longer term and enhance stakeholders' confidence."

[Financial Chronicle/PTI, Aug 31]

Profile of the NBFC Sector

Excerpts from the Report of "Working group on the issues and concerns in the NBFC Sector" constituted by the Reserve Bank of India, headed by Mrs. Usha Thorat, former Dy. Governor of RBI, which was submitted in August 2011.

"Given the growing importance of this segment of the financial system, it has become equally important to ensure that the dynamism displayed by NBFCs in delivering innovation and last mile connectivity for meeting the credit needs of the productive sectors of the economy is not curbed."

2.5.1 The total number of NBFCs was 12,662 as on March 31, 2010, comprising 311 deposit taking NBFCs (NBFCs-D), 295 systemically important non-deposit taking companies, (NBFCs-ND-SI) and 12,056 other non-deposit taking NBFCs (NBFC-ND).

2.5.2 The number of NBFCs-D (excluding RNBCs) and the amount of deposits held by them have been showing a sharp decline over the years. Table 1 and Chart 1 below show the trend in the amount of deposits held by them as a share of bank deposits for the years 1998, 2006 and 2010.

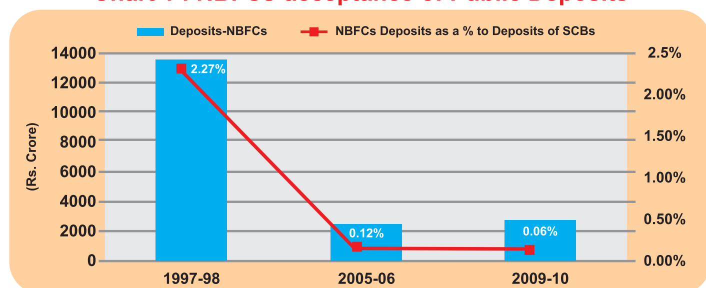
Table 1: NBFCs@ - Acceptance of Public Deposits

(Rs. Crore)

Year	No. of Reporting Companies	Public Deposits	Public Deposits as % of Bank Deposits
1997-98	1420	13572	2.27%
2005-06	428	2448	0.12%
2009-10	280	2753	0.06%

@ Excluding RNBCs

Chart 1 : NBFCs-acceptance of Public Deposits



2.5.3 At the same time, the NBFC-ND-SI sector, which constitutes 70 per cent of total assets of NBFCs, recorded significant growth. Their number increased from 151 in March 2006 to 295 in March 2010, and their assets grew from Rs. 250,765 crore, to Rs. 566,853 crore in the same period. Table 2 and Chart 2 give the growth of assets in the NBFC sector as a whole, (NBFC-D and NBFC-ND-SI), since 1997-98.

Table 2 : NBFCs@@ - Growth of Asset

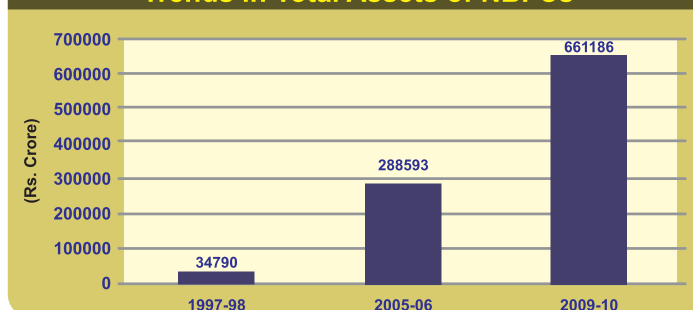
(Rs. Crore)

Year	No. of Reporting Companies	Total Assets	CAGR (%)	Total Assets as % of total Bank Assets
1997-98	1420	34790		4.4
2005-06	586	288593	30.3	11.1
2009-10	575	661186	23.0	11.0

@@ Excludes RNBCs but includes deposit taking (NBFCs-D) and systemically important non-deposit taking NBFCs (NBFCs-ND-SI) which account for about 90% of total assets of the sector

Data for the year 1997-98 includes only deposit taking NBFCs while other two periods, 2005-06 and 2009-10 includes deposit taking NBFCs and NBFCs-ND having assets size Rs. 100 crore & above (ND-SI)

Chart 2 : Trends in Total Assets of NBFCs



2.5.4 Table 3 and Chart 3 indicate that bank borrowings constitute an important source of funds for NBFCs. The NBFCs-ND-SI are significant from the systemic point of view as they also access public funds indirectly through commercial papers, debentures and inter-corporate deposits apart from bank finance. Table-4 and Chart 4 give the details in this regard.

Table 3 : NBFCs@@ - Borrowings from Banks as Source of Funds

(Rs. Crore)

Year	No. of Reporting Companies	Total Assets	Bank Borrowings	CAGR (Bank Borrowings)	Bank Borrowings as % of Total Assets
1997-98	1420	34790	5554		16.0
2005-06	586	288593	54171	32.9	18.8
2009-10	575	661186	121774	22.4	18.4

@@ Excluding RNBCs but include deposit taking and non-deposit taking NBFCs which account for about 80% of total assets of the sector (Source : Returns) Note: Data for the year 1997-98 includes only deposit taking NBFCs while other two periods, 2005-06 and 2009-10 includes deposit taking NBFCs and NBFCs-ND having assets size Rs. 100 crore & above (ND-SI)

Chart 3 : Trends in Bank borrowings

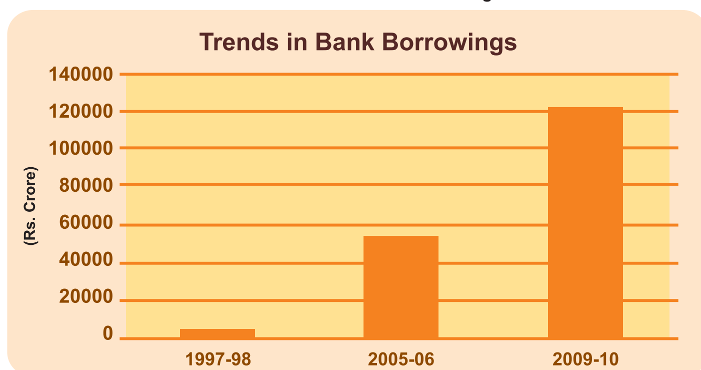


Table 4 : NBFCs@@ - Sources of Funds

(Rs. Crore)

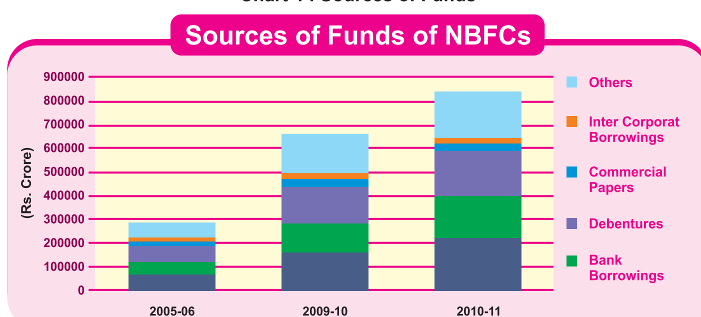
Year	2005-06	2009-10	2010-11
Owned Fund	65068	161288	218454
	(22.5)	(24.4)	(25.9)
Public Deposits	2667	2753	3935
	(0.9)	(0.4)	(0.5)
Bank Borrowings	53188	120986	176879
	(18.4)	(18.3)	(21.0)
Debentures	68138	154109	186883
	(23.6)	(23.3)	(22.2)
Commercial papers	13785	35546	33672
	(4.8)	(5.4)	(4.0)
Inter-Corporate Borrowings	19718	19898	25972
	(6.8)	(3.0)	(3.1)
Others	66029	166607	196854
	(22.9)	(25.2)	(23.4)
Total Assets	288593	661187	842649
	(100.0)	(100.0)	(100.0)

@@ Excludes RNBCs but include deposit taking (NBFCs-D) and systemically important non-deposit taking NBFCs (NBFCs-ND-SI)which account for about 90% of total assets of the sector

Note: Data for the year 1997-98 includes only deposit taking NBFCs while other two periods, 2005-06 and 2009-10 includes deposit taking NBFCs and NBFCs-ND having assets size Rs. 100 crore & above (ND-SI)

Note: Others include interest accrued, borrowings from relatives, deferred credits and other borrowings

Chart 4 : Sources of Funds



2.5.5 Category wise profitability of NBFCs:

Table 5 and Chart 5 show the growth of assets as per type of NBFCs while Table 6 and Chart 6 gives the ROE, ROA and leverage ratio for various types of NBFCs.

Table 5 : Growth of Assets as per type of NBFCs (yoy%)

(Rs. Crore)

Year	2006-07	2007-08	2008-09	2009-10	2010-11
Asset Finance Companies	52261	73598	97686	113951	138074
		(40.8)	(32.7)	(16.7)	(21.2)
Investment companies	119191	115677	121267	143244	153683
		-(2.9)	(4.8)	(18.1)	(7.3)
Loan Companies	182351	244884	371102	403992	497580
		(34.3)	(51.5)	(8.9)	(23.2)
Total Assets	353803	434159	590055	661187	789337
		(22.7)	(35.9)	(12.1)	(19.4)

Figure in brackets represents percentage growth rates on year-on-year basis

Note: Loan companies include infrastructure finance companies, MFIs and gold loan companies and Govt. companies

Note : The above data pertains to both NBFC-D and NBFC-ND-SI

Chart 5 : Trends in total assets of NBFCs

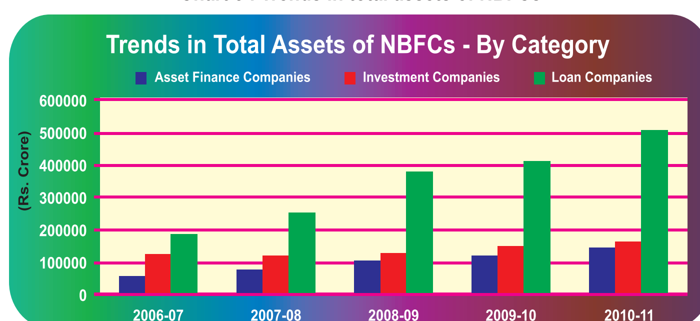


Table 6 : Profitability Indicators of NBFCs, As on Mar. 31, 2010

Type of NBFC	Total Assets	Return on Assets (%)		Return on Equity (%)		Leverage Ratio (%)	
		NBFCs-D	ND-SI	NBFCs-D	ND-SI	NBFCs-D	ND-SI
Public Sector NBFCs	61988	2.9	1.1	22.2	11.0	13.1	10.1
IFCs	196158	NA	2.8	NA	16.3	NA	17.1
AFCs	113951	2.8	1.3	19.8	8.5	14.2	15.1
Gold Loan Companies	8650	4.6	3.9	19.4	37.4	23.9	10.5
MFIs	13975	NA	3.7	NA	21.4	NA	17.4
Other Loan & Investment Companies	266764	4.5	1.7	6.0	3.8	75.9	44.5
All NBFCs	661186	3.0	2.0	19.4	7.1	15.6	28.6

Note : 1. NBFCs-D=Deposit taking NBFCs and ND-SI=non-deposit taking systemically important NBFCs (NBFCs-ND with assets size Rs. 100 crore & above)Note: 2. Leverage Ratio = Tier-I Capital as a % to Total Assets

Source: Annual Returns on NBFCs-D and ND-SI

> ***"There is merit in the argument that financing of productive assets is a major contributor to economic growth. Further, the argument advanced in 2006 by the industry [Asset Financing Sector] and accepted by RBI, that broad brush approach for all NBFCs may not be followed, remains valid."***

SEBI announces norms for infra debt fund

The SEBI on July 28 came out with guidelines for infrastructure debt fund (IDF), which can be set up by any existing mutual fund or a company which have been engaged in financing the sector for five years. Now mutual funds can float a 'Infrastructure Debt Fund' as a close-ended scheme maturing after five years or an interval scheme with lock-in of five years, SEBI Chairman UK Sinha said. The IDF would invest 90% of its assets in the debt securities of infrastructure companies. The minimum investment into IDF would be Rs 1 crore and the minimum size of the unit would be 1 million, SEBI said.

The requirement of infrastructure in the 12th Plan has been pegged at $1 trillion. As per the government norms an IDF may be set up either as a trust or company. While the trust based IDF (Mutual Fund) would be regulated by SEBI, an IDF set up as a company (NBFC) would be regulated by the RBI. [Business Standard, July 28]

Infra finance firms may float long term bonds

Market regulator SEBI allowed infrastructure finance companies to raise funds overseas through long-term corporate bonds. "It has been decided that Non-Banking Financial Companies (NBFCs) categorised as Infrastructure Finance Companies (IFCs) by the Reserve Bank of India (RBI) shall also now be considered eligible issuers for the purposes of FII Investment under the corporate debt long term infra category," SEBI said in a circular. This fund raising tool was so far limited to companies in the infrastructure sector. Investments in such bonds shall have a minimum lock-in period of three years. However, during the lock-in period, FIIs will be allowed to trade amongst themselves. During the lock-in period, the investments cannot, however, be sold to domestic investors. In a bid to facilitate fund flow in the infrastructure sector, the government has recently enhanced FII limit from USD 5 billion to 25 billion for corporate bonds issued by companies in the infrastructure sector with a residual maturity of over five years.
[Financial Express, Aug 26]

SEBI mulls tougher rules for share pledging by promoters

Suspecting possible circumvention of its disclosure norms for share pledging, SEBI is mulling changes in the rules to bring to the fore cases of promoters raising funds by keeping shares as 'indirect collateral'. At the same time, the market watchdog is also considering making it mandatory for company promoters to disclose the amount of funds raised by share pledging and the utilisation of such proceeds, a senior official said.

Sources said the regulator has received complaints of promoters resorting to informal and private financing arrangements with shares as collateral to avoid the disclosure norms. In many cases, these arrangements are entered into with entities outside the banking system and promoters do not pledge the shares of the listed companies themselves, but use the shares of unlisted Special Purpose Vehicles (SPVs), which are created solely for the purpose of financing. In its initial investigation, SEBI has found that the promoters generally turn to NBFCs (non-banking financial companies) and brokerage firms to raise funds with shares of some holding companies or SPVs as collateral, rather than using the shares of directly listed companies.

SEBI is also concerned by the allegations of promoters resorting to fund-raising activities of huge scale through formal and informal pledging without revealing either the size of the funds or the end-use of these proceeds, sources said. As per the share pledging disclosed by the companies, promoters of about 800 companies have pledged shares worth an estimated Rs 1,50,000 crore. However, the current disclosure norms do not provide any estimate of the funds raised through such pledging and it is feared that the actual cases of pledging could be much wider. [PTI, July 03, 2011]

SEBI outlines norms for private equity, venture funds

A private equity (PE) fund may invest in unlisted equity or equity-linked instruments of companies and should invest at least half of the fund in equity shares or equity-linked instruments of an unlisted company, according to SEBI. SEBI also said venture capital funds will be not be allowed to invest in any company promoted directly or indirectly by any of the top 500 listed companies by market capitalisation or by their promoters. [Financial Express, August 2]

SEBI plans unit to assess risks to securities market

With a view to guard against potential event or action that could disrupt Indian securities market, the SEBI is setting up a Systemic Stability Unit (SSU) to assess systemic risks in securities market and to monitor systemically important financial institutions under its jurisdiction like stock exchanges and depositories. The move assumes significance in the wake of the near collapse of global financial system triggered by the sub-prime crisis in the United States in 2008 and the panic sell off last week in global equity markets after the downgrade of US' sovereign ratings. "Systemic risk not only has the potential to harm a large number of investors and market participants, but it can also have a widespread negative effect on the overall economy. Reducing systemic risk is one of the objectives of securities regulation," said the note circulated at SEBI's board meeting on July 28. The SSU would facilitate centralised assessment of systemic risks in securities market by SEBI and would facilitate the inter-regulatory co-ordination from SEBI to other regulators. [Financial Chronicle, Aug 11]

SEBI notifies new takeover norms; open offer trigger at 25%

SEBI on Sept. 23 notified new takeover rule under which an entity buying 25 per cent stake in a listed firm will have to mandatorily make an open offer to buy an additional 26 per cent shares from public. The new norms mark an increase in the open offer size for public shareholders from 20 per cent currently. Also the trigger for making such an offer has been raised from 15 per cent under the existing regulations. The new regulations, titled as 'The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011', will come into effect from the next month.

Under the new rules, there would be no separate provision for non-compete fees, which allows promoters to higher price than the public shareholders, and all shareholders should be given the exit option at the same price. Partly accepting the recommendations of a Sebi-appointed panel on the matter, the regulator also decided to abolish the non-compete fees that acquirers generally pay to the sellers in merger and acquisition deals. SEBI, as part of the new code, allowed voluntary offers subject to certain conditions. [PTI, 23 Sept. 2011]

SEBI investigates cos reporting suspiciously high growth

Capital market regulator SEBI routinely investigates companies that report suspiciously high growth in turnover and profits to detect possible frauds, Parliament was informed. The 'Early Warning System' mechanism exists and it can be run on data available, Minister of State for Finance Namo Narain Meena said, responding to a written query in the Lok Sabha on whether the government keeps a watch on companies that show suspiciously high growth in turnover and profits. This system, he added, is based on certain risk parameters like abnormal change in profitability compared to earlier years, to help detect fraud at an early stage. "SEBI also carries out investigations on the basis of inputs received from various sources, including information on companies which show suspiciously high growth in turnover and profits," Meena said. Also, exchanges as a part of their surveillance function, monitor trading activities of companies as also any substantial variation in company's figures, he said. [PTI, Aug. 19]

SEBI to keep an eye on rating agencies

Amid a global market mayhem triggered by a rating action in the US, SEBI has decided to keep an "intent watch" on the role of credit rating agencies and risks they might pose to the market with an aim to make necessary changes in regulations for these entities. The

regulator will revisit the regulations for credit rating agencies (CRAs) after monitoring the domestic and global developments in this regard, a senior official said. The issue was discussed by SEBI board and the regulator would propose required changes, if required. [Financial Chronicle/PTI, Aug 11]

SEBI plans organizational revamp

Besides fixing the micro issues in the India's securities market — be it the takeover rules, mutual fund regulations or the IPO stipulations — which has always been priority of the SEBI since its inception, it wants to see the big picture. For the purpose, it plans undertaking structural and organisational revamp in tune with emerging global trends. To begin with, it is creating a post of chief economist, who will help the regulator in its internal research capabilities on the wake of fast developing global and domestic macro-economic environment. Secondly, it will appoint an independent reputed agency, which will suggest ways to meet new challenges and will also recommend structural and organisational revamp and re-prioritising areas of focus and looking at the technological and manpower needs with an emphasis on attracting and retaining good quality talent.
[Financial Chronicle, Aug 15]

SEBI to review consent settlement procedure

Market regulator SEBI is mulling changes in the way it settles probes against listed companies and various market entities through a consent procedure — an out-of-court-like settlement — as it has found the prevailing system to be lacking in uniformity. In the consent settlement in vogue since 2007, the entity facing probe is subjected to certain fees and restrictions without admission or denial of alleged irregularities and SEBI thereafter drops its charges and the investigations.

An internal study by SEBI has, however, found that different yardsticks might have been applied in different consent cases and there is no consistency and any clear-cut uniformity in the way such cases are handled, sources said. The regulator's internal study found that there was a perception about the consent orders being mostly subjective and not adequately transparent in nature and these procedures providing an escape route to alleged offenders. SEBI would consider changing consent orders in such a way, so that they can be taken as a warning from the regulator and also a 'name and shame' directive for entities alleged to have indulged in market irregularities, sources said.

The regulator would look at bringing in more clarity on how such orders should be framed, as also at what time and in which cases consent orders should be passed, sources added. SEBI introduced consent settlement system in April, 2007 with a view to cut down on its costs, time and efforts in taking up the enforcement actions. So far, the regulator has passed more than 1,000 consent orders.
[Financial Chronicle/PTI, Aug 21 2011]

Credit Ratings: Conflict of interest

Ratings agencies suffer 'conflict of interest', says former Moody's boss

Rupert Neate

William Harrington attacks agencies for being paid by banks and companies they are supposed to rate objectively

Moody's headquarters in 7 World Trade Center in New York. The agency is accused of leaning on its analysts to ensure ratings match those wanted by its clients. A former credit-ratings agency executive has launched a stinging attack on the powerful organisations that can damage countries' economies and wreak havoc in the markets with the stroke of a pen. William Harrington, a former senior president at Moody's, claims the organisation's senior management interfere with analysts' independent assessments.

Ratings agencies have attracted international opprobrium after Standard & Poor's, another of the three big agencies alongside Moody's and Fitch, stripped the United States of its gold-standard AAA rating.

Harrington, who worked at Moody's for 11 years until he resigned last year, said ratings agencies suffer from a conflict of interest because they are paid by the banks and companies they are supposed to rate objectively. "This salient conflict of interest permeates all levels of employment, from entry-level analyst to the chairman and chief executive officer of Moody's corporation," Harrington said in a filing to the US financial regulator the securities and exchange commission (SEC), which is considering new rules to reform the agencies.

Harrington claims that Moody's uses a long-standing culture of "intimidation and harassment" to persuade its analysts to ensure ratings match those wanted by the company's clients. He says Moody's compliance department "actively harasses analysts viewed as 'troublesome' " and said management "rewarded lenient voting". "The goal of management is to mould analysts into pliable corporate citizens who cast their committee votes in line with the unchanging corporate credo of maximising earnings of the largely captive franchise," he said in the 78-page filing submitted earlier this month.

Moody's, and other credit-rating agencies, were placed at the heart of the US sub-prime mortgage crisis because they over-rated complex financial products that were based on largely worthless mortgages. Because the agencies gave good ratings to products called collateralised debt obligations (CDO), banks bought risky debts that they would normally have steered clear of. "In the experience of the contributor, the committees that issued opinions on CDOs from 2005 to the middle of 2006 degenerated increasingly into 'talking shops'," said Harrington, who worked in the department that rated many such products. "In these instances, members felt free to discuss the negative aspects of the CDO but also felt pressure by management to overlook these aspects when voting."

The Nobel prize-winning economist Joseph Stiglitz has identified rating agencies as one of the "key culprits" of the financial crisis. "They were the party that performed the alchemy that converted the securities from F-rated to A-rated. The banks could not have done what they did without the complicity of the rating agencies."

Internal S&P emails from 2006 appear to show that the agency was well aware of the risks of rating CDOs. "Let's hope we are all wealthy and retired by the time this house of cards falters. :o)," one S&P employee said in an email which was presented as evidence during a US government investigation into the financial crisis last year. Another email warned that "this is like another banking crisis potentially looming!!" The US department of justice was last week reported to have begun an investigation into whether S&P incorrectly rated the complex mortgage products.

Harrington warned that the SEC's proposed changes to the regulation of ratings agencies would do little to improve the situation and could make it easier for agencies to pressure their staff. [guardian.co.uk, 22 August]

Moody's Rejoinder:

Moody's has fought back over after claims from a former senior employee that the rating agency suffers from constant conflicts of interest and "harassed" analysts. A Moody's spokeswoman said it staunchly defended the ratings processes used by the company. "We have robust protections in place to separate the commercial and analytical aspects of our business, and our ratings are assigned by a committee - not by any individual analyst." She said. "Committee is the 'plant' that forms a Moody's opinion, which, in turn, is the sole product for which Moody's is paid." ■

Director of sister co convicted for issuing dishonoured cheque

The Supreme Court ruled that if a cheque is issued by a director of a company towards any liability or debt incurred by a sister company, the drawer of the cheque is liable under Section 138 of the Negotiable Instruments Act. In this case, Anil Sachar vs Shree Nath Spinners Ltd, a director was common to two companies. He issued four cheques in consideration of goods supplied to one company. They were dishonoured by the bank. The payee filed a complaint. The director said that he issued cheque of the company which did not buy the goods. The trial court and the Punjab & Haryana high court accepted this plea. The payee appealed to the Supreme Court. It convicted the director and set aside the high court judgment. The Supreme Court stated that the companies were sister concerns and though they are separate legal entities, they had common directors. They also had an understanding in trade regarding payment. When a cheque is issued, it could be presumed that it was issued to discharge a liability, as stated in Section 139 of the Act.

[Business Standard, July 25]

Dishonour of electronic funds transfer for insufficiency of funds in the bank account – clarification

Section 25 of the Payment and Settlement Systems Act, 2007 accords the same rights and remedies to the payee (beneficiary) against dishonour of electronic funds transfer instructions for insufficiency of funds in the account of the payer (remitter), as are available to the payee under section 138 of the Negotiable Instruments Act, 1881. The sub-section (5) of the section 25 of the Payment and Settlement Systems Act, 2007 provides for punishment of two years and twice the amount of electronic funds transfer instruction, or both for dishonour of such electronic funds transfer on par with the penalties stipulated for dishounour of cheques under the Negotiable Instruments Act, 1881. RBI has brought the rights and remedies available to the payees against dishonour of electronic funds transfer instructions on Sept. 21with view to make such transfer mode popular.

Arbitration agreement does not need registration: SC

An arbitration agreement in an unregistered deed can be enforced and acted upon for dispute resolution, the Supreme Court has stated in the case, SMS Tea Estates Ltd vs Chandmari Tea Co. Even if the deed is compulsorily registrable, this principle will apply, the court said. The dispute in this case arose over a 30-year lease of two tea estates between the parties. When disagreement arose, Chandmari company evicted SMS estates. So the latter applied for arbitration. It was opposed by Chandmari arguing that having regard to Section 107 of Transfer of Property Act and Sections 17 and 49 of the Registration Act, which made registration of the deed compulsory, the arbitration clause was not enforceable. The Gauhati high court agreed with this and rejected arbitration plea. However, on appeal, the Supreme Court stated that even if the deed was not registered, the arbitration clause could be enforced. An arbitration agreement does not require registration under the Registration Act. “Even if it is found as one of the clauses in a contract, it is an independent agreement to refer the disputes to arbitration,” the judgment emphasized.

[Business Standard, August 1]

Arbitration clause would not bar role of HC and SC

The Supreme Court ruled that an arbitration clause in a contract would not exclude the power of the high courts or the Supreme Court to decide disputes between the parties. The court thus dismissed the appeal of East Central Railway in the case, Union of India vs Tantia Construction Ltd. In this case, the railway awarded a project to the construction firm. Later, additional work had to be done and the firm was asked to undertake that too, at the cost dictated by the railway. This was resisted by the firm which moved the Patna high court. It stated that the entire work could not be thrust on the firm at its risk and cost. The government appealed to the Supreme Court, arguing that it could vary the nature of the work according to the terms of the contract. The government also argued that the courts could not interfere in the dispute as there was an arbitration clause. The Supreme Court rejected both the arguments and emphasized that the courts need not force the parties to go for the alternative remedy of arbitration every time. “Injustice, whenever and wherever it takes place, has to be struck down as anathema to the rule of law and the provisions of the Constitution,” the judgment said.

[Business Standard]

Arbitrator cannot order payment of interest

When an arbitration agreement excludes award of interest, the arbitrator cannot impose it on a party, the Supreme Court held in the case, Union of India vs Krafters Engineering & Leasing Ltd. It set aside the ruling of the Bombay high court which held the opposite view in a case under the old Arbitration Act 1940. While the old Act was silent on this aspect, the court pointed out that the new Arbitration and Conciliation Act 1996 has a specific provision with regard to award of interest by the arbitrator.

[Business Standard, July 25]

Bring whole NBFC sector at par: Suggestions of Raman Aggarwal on MFI Bill

The Draft of The Micro Finance Institutions (Development and Regulation) Bill, 2011 has been prepared by the Government of India and they have invited suggestions on it. Following are my observations:

1. The Name of the bill itself has the word “Development and Regulation” which justifiably casts a responsibility on the Regulator to also play the role of a Developer. This is something which is lacking in case of NBFCs where there is a crying need for someone to play the Developer’s role and ensure that the important role being played by NBFCs in promoting Financial Inclusion is fully recognized by the Govt.

2. Sec.23 - This truly deals with the Development Role likely to be played by the Regulator i.e. RBI. This section talks of RBI prescribing credit rating norms for MFIs. It is an established fact, admitted by the rating agencies also, that none of the Credit Rating agencies approved by RBI, have a model for rating of Small and Medium NBFCs. They use the same model to rate all NBFCs irrespective of their size. As a result, small and medium sized NBFCs who constitute more than 90% of the sector (in terms of the number of companies operating) are unable to get investment grade ratings in spite of their clean track record and constant but steady growth. The NBFCs have been demanding that either the existing rating agencies should be asked to develop a separate model for small NBFCs on the lines of the model used for rating of SMEs, OR RBI should grant approval to rating agencies like SMERA (promoted by SIDBI) and M-CRIL who currently rate MFIs but have shown interest in rating small NBFCs also.

3. Sec. 29 - This section talks of creating a new fund with Nabard - basically a refinance window for MFIs. Its been a long standing demand of the NBFCs that a Refinance Window should be made available to them on the lines of National Housing Bank for Housing Finance Companies. The Parliamentary Standing Committee on Finance in their 45th Report dated June, 2003 on The Financial Companies Regulation Bill, 2000 had recommended setting up of a new Refinancing Agency for NBFCs engaged in financing of Road Transport. The Standing Committee at that point of time comprised of eminent parliamentarians many of whom are Ministers in the current Cabinet including the Hon’ble Prime Minister.

4. Sec.42 - It clearly states that MFIs registered under this act shall not be covered under any of the state Money Lenders’ Acts. Once again something which the NBFC sector have been asking for quite sometime.

Raman Aggarwal

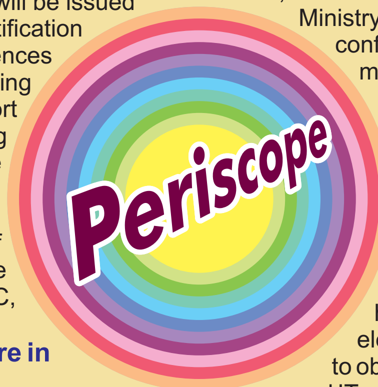
FIDC representation to RBI on Usha Thorat panel recommendations

In response to the Reserve Bank of India placing the report of Working Group on the Issues and Concerns in the NBFC Sector on 29 Aug. and asking comments on it the FIDC has submitted a representation on 29 Sept. Chairman, Mr. R. Sridhar said," It is heartening that the Working Group has acknowledged the NBFCs contribution in lending considerable depth to the overall financial sector". A set of recommendations made by the panel "would go a long way in further strengthening the financial sector and facilitate greater convergence within the financial system", he added. While NBFC-AFCs may be in agreement with the broad approach adopted by the working group, there are a few areas which require moderation and other areas merit status quo or reconsideration.

Driving licence, vehicle info now just a click away

Tracing the ownership of a vehicle will be a few clicks away, with the road transport and highways ministry and the National Informatics Centre (NIC) launching a centralised database of vehicle registration and driving licences on July 20. Launching the two schemes-Sarathi for licences and Vahan for vehicle registration, road transport minister C P Joshi said these schemes would be of great help to the people. "These schemes will also benefit the security agencies a lot," Joshi said.

Under these schemes, there will be two web portals, one for licence and the other for vehicle registration, and limited departments will have access to these portals. These portals will contain details of all driving licences issued and vehicles registered across the country. Under the new system, a uniform driving licence will be issued across the country. "Within a month, a gazette notification will be issued to make it mandatory that all new licences look alike and be issued as Indian Union Driving Licence," said an official of the road transport ministry. He said this would help them in detecting people with multiple driving licences. On these portals, people can apply for driving licence and registration certificate, among other things. "These portals will also facilitate online payment of different taxes, fees and transport charges by the end of this year," said deputy director of NIC, Mahesh Chandra. [BS Reporter, July 21]



India Inc's bond issues hit Rs 1,92,127 crore in FY11

Indian companies, including banks, financial institutions, private and government organisations, mobilised a total of Rs 1,92,127 crore through corporate bonds on a private placement basis in 2010-11, a nominal 1 per cent rise over Rs 189,490 crore mopped up in the preceding year, according to data compiled by Prime Database. Of the total funds raised, financial institutions and banks' mobilisation grew by 7 per cent to Rs 1,16,231 crore from Rs 1,08,672 crore a year ago. The data shows that 129 private companies together raised Rs 60,039 crore, an increase of 9 per cent over Rs 55,191 crore mopped up a year ago. According to Prime, in addition to the above 365 days tenor mobilisation of Rs 1,92,127 crore, a significant additional amount of Rs 40,548 crore was raised through 925 deals of tenor 365 days & below bonds by 59 issuers (previous year Rs 126,386 crore). [Financial Chronicle, Jul 06]

PSU banks lose share in tractor loans to NBFCs, private banks

In the tractor-financing sector, loss of public sector banks appears to be the gain of the private sector banks and NBFCs. With public sector banks having lengthy, time-consuming formalities for sanctioning tractor loans, a small but growing breed of farmers are moving to private sector bank and NBFCs for financing. Few years ago about 82 per cent of the tractors sold in the country were financed by public sector banks but the number has fallen to 70 per cent over the last few years and the beneficiaries have been the private sector banks like HDFC, Kotak Mahindra and NBFCs like Magma Fincorp, Sundaram Finance among others, industry members say.

Tractor sales in India grew 24 per cent last year to 5.45 lakh units and this year the growth is expected to be at around 15 per cent, going by the monsoon pattern. But NBFCs are looking at a 100 per cent growth in business this year from tractor financing largely due to the business moving from public sector banks to NBFCs. Public sector banks charge lower interest rates of 11 per cent for tractor financing, while NBFCs and other private sector banks charge higher rate. "But NBFCs and private sector banks process loans much faster and for those in the farm sector, the speed at which they get such loans also matter a great deal and that has helped us grow," said Dhrubashish Bhattacharya, vice-president, Magma Fincorp.

For NBFCs and private sector banks, which are already awaiting a slowdown in auto sales this year, this is a good opportunity to grow their overall business and also penetrate a new line of business. "We have a small, growing presence in the tractor finance sector in our growth portfolio. It contributed 2 per cent of our overall credit disbursal last year. We hope that it would grow bigger this year," said TT Srinivasaraghavan, MD, Sundaram Finance. [Financial Chronicle, June 20]

Hearty Congratulations on the extension of the term for two years:

Dr. D. Subbarao, Governor,
Reserve Bank of India

AGMs via video conference get nod

Directors and shareholders of companies can now log onto their board, committee and general meetings at the click of a mouse. The Ministry of Corporate Affairs has given the nod to video conferencing of board, committee and shareholder meetings under the provisions of the Companies Act, 1956. The Ministry enabled this facility under Section 13 of the Information Technology Act, 2000.

While it is not binding on companies to provide its directors this facility, it would be mandatory for all listed companies to provide the facility to shareholders from next year, said an official. For e-voting in general meetings, National Security Depository Ltd and Central Depository Services Ltd have been chosen to provide and supervise electronic platforms. However, NSDL and CDSL need to obtain certification from the Ministry of Communication and IT.

The Ministry said, "A director participating through video conferencing will be counted for the purpose of quorum. But every director must attend at least one meeting in a financial year." The statutory registers required to be signed by the other directors are deemed to have been signed by the participating directors through the electronic mode if they have given their consent to this effect in the meeting. The video recording would have to be preserved by the company for one year. Companies will have to set up video conferencing facilities in at least five places across India depending on the number of shareholders, the Ministry stated. The move will help companies in convening meetings speedily and transcending geographical barriers. Such a move will also result in a drastic reduction of paper. [Business Line, June 24]

CAG: 1,142 NBFCs slipped service tax net

The Comptroller and Auditor General (CAG) has suggested the revenue department should liaise with the RBI to bring non-banking financial companies under the service tax net. The CAG found 1,142 service providers in the banking and financial services segment were liable to pay service tax but not on the tax department's registration list. About 65 of them were liable to pay service tax to the tune of Rs 92 crore in 2009-10.

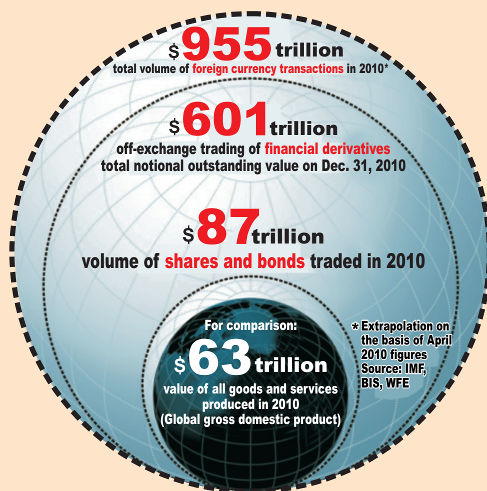
In its report tabled in Parliament, the CAG said there were procedural deficiencies in registration of assessees, receipt of returns and scrutiny of returns, beside ambiguities in rule provisions and non-compliance. It advised the department to take up various measures, including surveys, to identify potential assessees for service tax and get these registered. [BS Reporter, August 24] ■

BEYOND BOUNDARIES

Size of global finance

The staggering size of the world's financial sector was the subject of an investigation by German magazine Der Spiegel. The publication uses a useful visual graphic of the globe to compare the size of the industry to the value of the world's good and services. According to statistics it has obtained, though goods and services produced in 2010 amounted to $63tn (€44tn), the volume of shares and bonds traded was in fact $87tn (€60tn).

This pales in comparison however to the notional $601tn (€417tn) in off-exchange trading of financial derivatives that year. But if you thought that was figure, just wait until you see the total volume of foreign currency transactions in 2010. It alone amounted to a notional $955tn (€663tn). [Spiegel Online International, 24 Aug.]



EU, US 'dangerously close' to recession

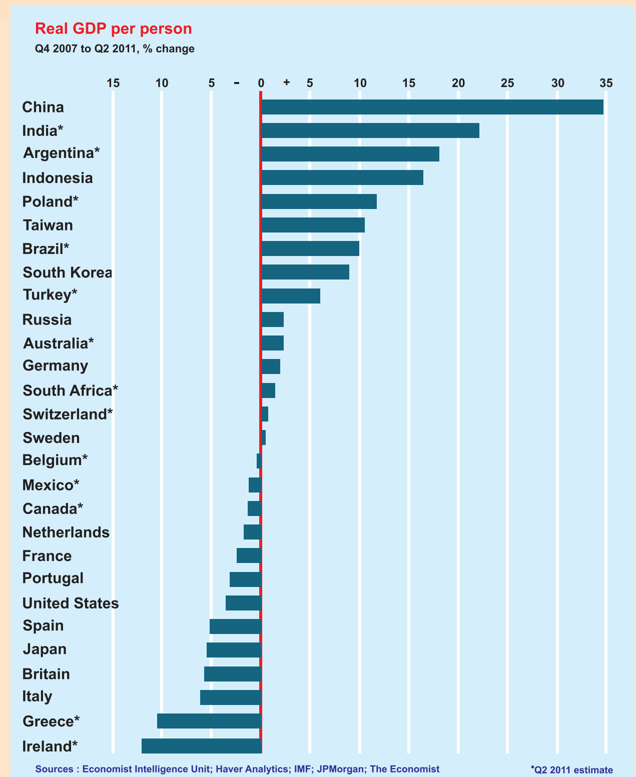
Major policy errors have left both the US and Europe hovering "dangerously close" to another recession, Morgan Stanley has warned. Releasing a research note on global economics, the investment bank has slashed its worldwide growth predictions for the next two years. The group's forecast for global GDP growth falls to 3.9 per cent in 2011 and 3.8 per cent in 2012, following a previous prediction of 4.2 per cent and 4.5 per cent respectively. Predicted growth in the euro area falls from 2 per cent to 1.7 per cent in 2011, followed by a mere 0.5 per cent increase in 2012.

Govt debts crossed $41 trillion globally in 2010: McKinsey

"Public debt outstanding (measured as marketable government debt securities) stood at $41.1 trillion at the end of 2010, an increase of nearly $25 trillion since 2000. "This was the equivalent of 69% of global GDP, 23 percentage points higher than in 2000. In just the past two years, public debt has grown by $9.4 trillion — or 13 percentage points of GDP," global consultancy McKinsey said. Meanwhile, overall outstanding debt worldwide has more than doubled in the past 10 years to $158 trillion in 2010. In 2000, the same stood at $78 trillion. "Debt also grew faster than GDP over this period, with the ratio of global debt to world GDP increasing from 218% in 2000 to 266% in 2010," McKinsey said. Around $48 trillion of the total debt outstanding was that of governments and financial institutions. [PTI, August 15]

GDP recovery since the recession

The economies which have fared best and worst during the global financial crisis [from April 2007 to February 2011] are shown in following chart by Economist. GDP per person is a better measure of relative performance has been taken as yardstick. One could say that Asia and South America [especially China, India, Argentina and Indonesia] avoided the recent crisis by merely weathering their own smaller crises shortly. They faced the storm and came out quickly, while the "Western" developed world was hit hard and continues to suffer. [The Economist online, Aug. 18]



Indian, Chinese middle class could lead global consumption: ADB

Amid sluggishness in demand in the developed world, the Asian Development Bank[ADB] has said in a report that "the emerging middle class consumers of Asia, especially in the China and India, can become the next leading global consumers, and assume the role that the American and European middle classes have traditionally played in the world order," ADB said. The ADB noted that developing Asia might account for 43 per cent of worldwide consumption by 2030. . "Asia's remarkable 6.1 per cent yearly growth in real gross domestic product per capita (in 2005 purchasing power parity terms) between 1990 and 2008 was led by the People's Republic of China (9.1 per cent), India (4.9 per cent), and the Republic of Korea (4.6 per cent)," the report said. [Financial Chronicle, Aug 23]

Fraudsters using false information to dupe car dealers

In the last 12 months, almost 30% of motor finance fraud was committed using false finance applications in UK. This is according to the Finance & Leasing Association, which published motor finance fraud figures for the second quarter of 2011. The figures show that fraudsters giving false information on their applications to secure car finance are most likely to lie about their employment circumstances, often giving details of bogus companies as their employer. They also show that fraudsters use false home addresses and overstate their earnings to increase their chances of getting credit. Motor finance companies have become adept at spotting fraud and only one in every eleven fraudulent applications is successful. Working with a dedicated police Vehicle Fraud Unit, FLA member finance companies detected over 2,100 cases of motor fraud in the second quarter of 2011. This prevented £26.8 million of fraudulent deals. [FLA, UK, 1 Sept.] ■

NBFCs want risk weight lowered for secured assets

NBFCs want the RBI to introduce dynamic risk-weighting for their assets to compensate for the higher capital adequacy that the central bank's Working Group on Issues and Concerns in the NBFC Sector has recommended. Welcoming the move towards convergence in regulations between banks and non-banks, Mr T.T. Srinivasaraghavan, Managing Director, Sundaram Finance Ltd, said, like banks, NBFCs too should get the benefit of lower-risk weightage for secured assets so that capital is freed-up for further lending. In simple words, NBFCs want the RBI to allow them to set aside less capital for secured assets. The RBI's working group has recommended that NBFCs should maintain a minimum capital adequacy ratio of 15 per cent, of which core capital (or Tier-I capital) will be 12 per cent. Emphasising that NBFCs have been working in the financial inclusion space for the last six decades by providing loans to those who did not get them from banks, Mr Srinivasaraghavan asked why can't NBFCs represent banks as business correspondents in rural areas when even a kirana store and a petrol pump can function as one?

The newly appointed Chairman of the Finance Industry Development Council, Mr R. Sridhar, said the working group's recommendation requiring NBFCs to follow the 90-day non-performing asset recognition norm, against the extant 180-day norm, was not fair as, unlike banks, they were dealing with customers who do not have collateral or cash flows.

Ms Thorat pointed out that higher capital adequacy and 90-day NPA recognition norm had been recommended by the working group as NBFCs faced higher asset concentration risk — they were lending only to the commercial vehicles segment, or for gold loans and home loans. Banks, according to Ms Thorat, can weather an economic downturn as they have various lines of business whereas NBFCs have a single line of business.

To a question on why NBFCs were not being allowed access to external commercial borrowings, Ms Usha Thorat, Director, Centre for Advanced Financial Research and Learning, explained that the central bank doesn't want any financial intermediary to intermediate between overseas and domestic markets. ECB is meant only for Indian companies and it comes with certain end-user restrictions, she said at an interactive session organised by the Indian Merchants' Chamber for NBFCs. [Business Line, 21 Sept.]

FIDC In Action

Representations/Issues to be taken up with RBI

- Permit raising of **perpetual debt** for deposit-taking NBFCs as well, pursuant to increase in CRAR, as was done for NBFC-ND- SI.
- Banks continue to get Priority status for Securitisation deals from NBFCs. However, in case of normal lending, the benefit would not be available as per May 2011 circular. This issue is to be taken up with the Committee under the chairmanship of Mr. M V Nair constituted by RBI to look into the Priority Sector lending. FIDC will represent its case before the committee.

Dialogue on issues of concern to NBFCs

- Mr. T T Srinivasaraghvan held meetings with RBI Dy. Governors Mr. Subir Gokarn and Mr. Anand Sinha as well as Chief General Manager, RPCD Mrs Deepali Pant Joshi on 27th July, 2011. Apart from other issues concerning NBFCs, the major discussion was in respect of Priority sector lending.
- Mr. Raman Aggarwal made a presentation at Society of Indian Automobile Manufacturers.

Submissions to SC on a case: Repossession of vehicles

In respect of a case regarding Repossession of assets before the Hon'ble Supreme Court of India, Raman Aggarwal, co-chairman informed that the hearings in the matter are over. FIDC has made detailed submission to the court, as required by the Apex Court. The major concern was 'Use of Force' during recovery and repossession.

Mr. R. Sridhar elected as FIDC's Chairman and Mr. Alok Sondhi as Co-Chairman

Finance Industry Development Council (FIDC) has elected Mr. R. Sridhar, Managing Director, Shriram Transport Finance Company Ltd. as its Chairman and Mr. Alok Sondhi, Managing Director of Punjab Kashmir Finance Ltd. as Co-Chairman for two years at its meeting held on 20th September 2011 at Mumbai.

Mr. R. Sridhar said, "I am humbled with the responsibility entrusted on me and during my tenure I would work towards strengthening NBFC AFC industry which would help in achieving the govt.'s objective of financial inclusion".

R. Sridhar
Chairman, FIDC
Managing Director,
Shriram Transport Finance
Company Ltd.

Alok Sondhi
Co-Chairman, FIDC
Managing Director,
Punjab Kashmir
Finance Ltd.

Mr. R. Sridhar is a fellow member of the Institute of Chartered Accountants of India. He joined Shriram in 1985 and was later promoted as President of the company in 1994. He was co-opted as an Additional Director and appointed as the Managing Director of the company in September 2000. Mr. Sridhar has over two decades of experience in the financial service sector, especially in commercial vehicle financing. He is the recipient of Ernst & Young's entrepreneur of the year – Manager Award 2011 and Business Achiever Award from Institute of Chartered Accountants of India (ICAI) for the year 2010-2011.

"**Mr. Alok Sondhi**, having over 30 years of rich experience in finance sector is the Managing Director of Punjab Kashmir Finance Ltd. an asset finance company established in 1958. Besides active involvement as a senior office bearer at Regional & National level in Finance Industry Associations, he is associated with many Educational, Social & Charitable organizations."

Kudos to Mr. T T Srinivasaraghvan and Mr. Raman Aggarwal

Mr. T T Srinivasaraghvan expressed his inability to continue as Chairman of FIDC, due to pre-occupation as well as for the need to follow democratic functioning at FIDC. Mr. Raman Aggarwal similarly offered to step down as the co-chairman. FIDC has attained a great progress and recognition during their tenures of last 6 years. Mr R Sridhar thanked and made a special mention particularly of the great efforts put in by TT Srinivasaraghavan and Raman Aggarwal during all these years and acknowledged their contribution to FIDC and the sector.

Annual General Meeting of FIDC

Annual general meeting of the members of FIDC was held at Mumbai on 20 September. Election of members of Governing Board took place at the AGM. Following four members who were due for retirement, but eligible for re-election were re-elected unanimously:

1. Mr, Sunil Kanoria
2. Mr. Kailash Mull Dugar
3. Mr. Alok Sondhi
4. Mr. R. Sridhar

Views expressed herein are not necessarily the views of FIDC.

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Suggestions and feed-back

We would appreciate your views, suggestions and feed-back to make the **'FIDC News'** more useful and illuminating. Your inputs and contributions too are welcome on : fidcnews@gmail.com

- Editorial Committee

With CBI, media and civil society on the prowl, daily we make sure that he steps out of the house clean.

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