FIDC NEWS
Finance Industry Development Council
(A Representative Body of Assets and Loan Financing NBFCs)
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Finance Minister announce measures for relief and credit support related to businesses, especially MSMEs and NBFCs to support Indian Economy's fight against COVID-19

Union Minister of Finance and Corporate Affairs Smt. Nirmala Sitharaman said in her opening remarks that Prime Minister Shri Narendra Modi had laid out a comprehensive vision in his address to the nation on May 12 announcing Rs. 20 trillion stimulus packages to restore the health of Indian economy hit by Covid-19 pandemic. "Essentially, the goal is to build a self-reliant India that is why the Economic Package is called AatmaNirbhar Bharat Abhiyaan. Citing the pillars on which we seek to build AatmaNirbhar Bharat Abhiyaan, Smt. Sitharaman said our focus would be on land, labour, liquidity and law."

Finance Minister Smt. Nirmala Sitharaman announced measures focused on Getting back to work i.e., enabling employees and employers, businesses, especially MSMEs to get back to production and workers back to gainful employment.

Measures for NBFCs

Efforts to strengthen NBFCs, HFCs, and MFIs were also unfolded:

1. Rs 30,000 crores Special Liquidity Scheme for NBFC/HFC/MFIs

Government will launch Rs 30,000 crore Special Liquidity Scheme, liquidity being provided by RBI. Investment will be made in primary and secondary market transactions in investment grade debt paper of NBFCs, HFCs and MFIs. This will be 100 percent guaranteed by the Government of India.

2. Rs 45,000 crores Partial credit guarantee Scheme 2.0 for Liabilities of NBFCs/MFIs*

Existing Partial Credit Guarantee scheme is being revamped and now will be extended to cover the borrowings of lower rated NBFCs, HFCs and other Micro Finance Institutions (MFIs). Government of India will provide 20 percent first loss sovereign guarantee to Public Sector Banks.

***Will provide funding to NBFCs via SPV: Economic affairs secretary Tarun Bajaj**

A special purpose vehicle will be set up to provide liquidity support to NBFCs, economic affairs secretary Tarun Bajaj told ET. "An SPV would be created and liquidity pushed in... government of India will stand guarantee," Bajaj said.

This SPV will be the main vehicle for providing support to NBFCs as part of the economic package announced on Tuesday and will carry out primary and secondary market operations toward this end, he said. This means it will subscribe to debt issued by NBFCs and also buy it from the secondary market to provide liquidity, which will make such paper more attractive to other investors. The SPV vehicle will invest in investment-grade debt of non-bank lenders, housing finance companies and microfinance institutions. [PIB, Live Mint, May 13]

Measures for MSMEs:

1. Rs 3 lakh crore Emergency Working Capital Facility for Businesses, including MSMEs

To provide relief to the business, additional working capital finance of 20% of the outstanding credit as on 29 February 2020, in the form of a Term Loan at a concessional rate of interest will be provided. This will be available to units with up to Rs 25 crore outstanding and turnover of up to Rs 100 crore whose accounts are standard. The units will not have to provide any guarantee or collateral of their own. The amount will be 100% guaranteed by the Government of India providing a total liquidity of Rs. 3.0 lakh crores to more than 45 lakh MSMEs.

2. Rs 20,000 crore Subordinate Debt for Stressed MSMEs

Provision made for Rs. 20,000 cr subordinate debt for two lakh MSMEs which are NPA or are stressed. Government will support them with Rs. 4,000 Cr. to Credit Guarantee Trust for Micro and Small enterprises

Rs. 30,000 crore Special Liquidity Scheme for NBFCs/HFCs/MFIs
- NBFCs/HFCs/MFIs are finding it difficult to raise money in debt markets.
- Government will launch a **Rs. 30,000 crore Special Liquidity Scheme**
- Under this scheme investment will be made in **both primary and secondary market transactions in investment grade debt paper of NBFCs/HFCs/MFIs**
- Will supplement RBI Government measures to augment liquidity
- Securities will be **fully guaranteed by GoI**
- This will provide liquidity support for NBFCs/MFCs/MFIs and mutual funds and create confidence in the market

Rs. 45,000 crore Partial Credit Guarantee Scheme 2.0 for NBFCs
- NBFCs, HFCs and MFIs with low credit rating require liquidity to do fresh lending to MSMEs and individuals
- Exiting PCGS scheme to be extended to cover **borrowings** such as primary issuance of Bonds/CPs (liability side of balance sheets) of such entities.
- **First 20% of loss will be borne by the Guarantor i.e., Government of India.**
- AA paper and below including unrated paper eligible for investment (.... relevant for many MFIs)
- This scheme will result in **liquidity of Rs. 45,000 crores**

AT A GLANCE

EDITORIAL COMMITTEE

(CGTMSE). Banks are expected to provide the subordinate-debt to promoters of such MSMEs equal to 15% of his existing stake in the unit subject to a maximum of Rs 75 lakhs.

3. Rs 50,000 crores equity infusion through MSME Fund of Funds

Govt will set up a Fund of Funds with a corpus of Rs 10,000 crore that will provide equity funding support for MSMEs. The Fund of Funds shall be operated through a Mother and a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the Fund of Funds will be able to mobilise equity of about Rs 50,000 crores.

4. New definition of MSME

Definition of MSME will be revised by raising the Investment limit. An additional criteria of turnover also being introduced. The distinction between manufacturing and service sector will also be eliminated.

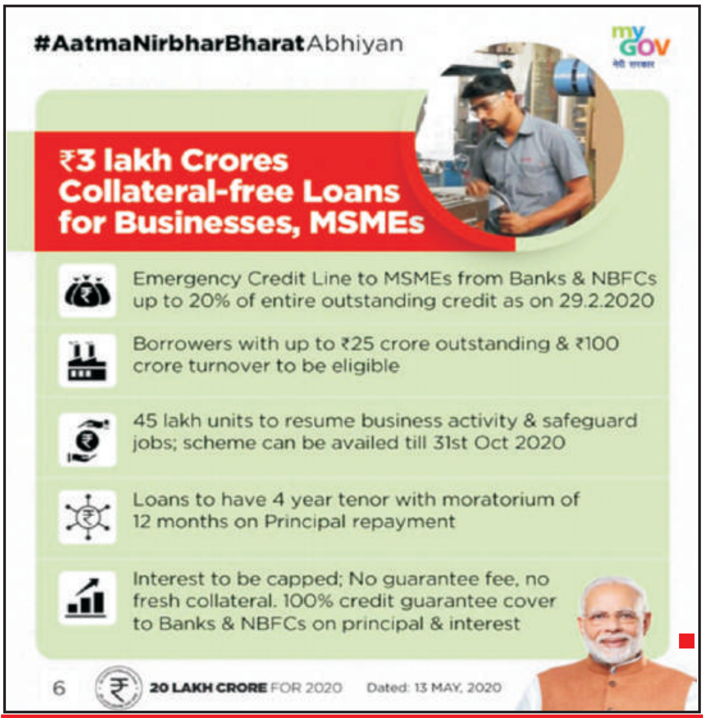
5. Other Measures for MSME

e-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions. MSME receivables from Government and CPSEs will be released in 45 days. [PIB, Live Mint, May 13]

In nutshell Finance Minister, Mrs. Nirmala Sitaraman announced 16 measures on May 13 as shown in following chart:

Businesses including MSMEs

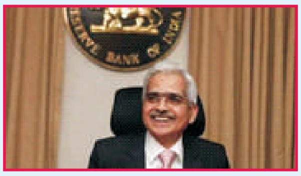
1. Rs. 3 lakh crores Collateral free Automatic Loans for Business, incl MSME
2. Rs. 20,000 crore Subordinate Debt for MSMEs
3. Rs. 50,000 cr equity infusion through MSME Fund of Funds
4. New definition of MSMEs
5. Global tender to be disallowed upto Rs 200 crores
6. Other interventions for MSMEs
7. Rs. 2500 crores EPF support for Businesses and Workers for 3 more months
8. EPF contribution reduced for Business & Workers for 3 months- Rs. 6750 crores
9. Rs. 30,000 crores Liquidity Facility for NBFC/HCs/MFIs
10. Rs. 45,000 cr Partial Credit Guarantee Scheme 2.0 for NBFC
11. Rs. 90,000 cr Liquidity Injection for DISCOMs
12. Relief to contractors
13. Extension of Registration and Completion Date of Real Estate Projects under RERA
14. Rs. 50,000 cr liquidity through TDS/TCS reductions
15. Other Direct tax Measures
16. Other Direct Tax Measures



FIDC has sent a representation to the Department of Financial Services, Ministry of Finance, Government of India requesting to drop the move to decriminalize the provisions under Sec. 138 of N.I. Act.

RBI IN BATTLE-READY MODE, SAYS SHAKTIKANTA DAS ON LIQUIDITY NEEDS OF NBFCS

Bank boards must clear the policy on offering moratorium on loans; RBI has approved it and the onus now remains on the banks, RBI Governor Shaktikanta Das told Cogencis in an interview. [Moneycontrol.com, April 27]



Das says RBI ready for more support to NBFCs

Interview of RBI Governor Shaktikanta Das by Cogencis on 27 April

The Reserve Bank of India is ready to take more measures to improve flow of credit to small non-bank finance companies and microfinance institutions, Governor Shaktikanta Das said in exclusive interview to Cogencis.

The challenge of ensuring flows to the mid- and small-sized NBFCs and microfinance institutions is still there, the governor said.

"That is an issue that is very much on our table. We will take further measures as necessary to address that challenge," Das said in the interview, his first media interaction since the nationwide lockdown to combat COVID-19 began on Mar 25.

"The RBI remains in battle-ready mode," the governor said.

The RBI has been trying to ensure flow of liquidity from banks to non-bank lenders by conducting long-term repo operations and targeted long-term repo operations.

Both these liquidity windows were heavily subscribed by banks, which parked the money either in sovereign bonds or in papers issued by public sector entities or top-rated companies and non-bank lenders.

The RBI then fine-tuned the targeted long-term repo operations and announced TLTRO 2.0 aimed at directing funds to NBFCs through banks.

However, the first 'TLTRO 2.0' saw demand for just about half of 250 bln rupees on offer.

RBI was aware that the demand may not be as good as other repo operations, despite some additional incentives, Das said. "We had a sense that the response may not be as good as TLTRO despite the additional incentives such as exemption from being reckoned as adjusted net bank credit."

"The auction results convey a telling message, which is that the banks are not willing to take on credit risk in their balance sheets beyond a point. We are reviewing the whole situation and based on that, we would decide on our approach."

Das said the RBI was reviewing the TLTRO 2.0 but he was non-committal on whether this would mean that the central bank would choose long-term repo operations over targeted long-term repo operations.

Credit flow to Non-banks

These are verbatim replies by RBI Governor relating to NBFCs:

Q. Were you surprised that banks did not participate in the TLTRO 2.0? The RBI has been proactive but banks just didn't come to the table.

A. We had a sense that the response may not be as good as TLTRO, despite the additional incentives such as exemption from being reckoned as adjusted net bank credit. The auction results convey a telling message, which is that the banks are not willing to take on credit risk in their balance sheets beyond a point. We are reviewing the whole situation and based on that, we would decide on our approach.

Q. Would that mean a move to more general liquidity tools like LTROs or TLTROs?

A. That I cannot say, but the underlying challenge of ensuring flows to the mid-sized and small-sized NBFCs and microfinance institutions, that underlying challenge still remains. That is an issue that is very much on our table. We will take further measures as necessary to address that challenge. The RBI remains in battle-ready mode.

Q. You have delivered some very strong messages from the RBI in recent times such as 'don't discount the RBI' and 'we shall endure'. In a crisis period, as the monetary authority of the country, what is your message to the financial sector and the common man on the streets?

A. This is **a time of trial; an endurance test.** We must **remain resilient and believe in our capacity** to come back stronger.

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Implementation of Section 51A of UAPA, 1967 - Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List - Addition of one individual: RBI/2019-2020/252; DOR. AML. BC. No. 75/ 14. 06. 001/2019-20; 08.6.2020; Department of Regulation [The Chairpersons/ CEOs of all the Regulated Entities]

COVID-19 – Regulatory Package: RBI/2019-2020/ 244; DOR.No.BP.BC.71/21.04.048/2019-20; 23.5.2020; Department of Regulation. [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including Housing Finance Companies)]

COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets: RBI/2019-2020/245; DOR.No. BP. BC. 72/ 21. 04.048/2019-20; 23.5.2020; Department of Regulation. [All Scheduled Commercial Banks (excluding Regional Rural Banks); All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI); All Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFC-ND-SI) and Deposit taking Non-Banking Financial Companies (NBFC-D)]

Extending Master Direction – Know Your Customer (KYC) Direction, 2016 to Housing Finance Companies: RBI/2019-2020/235; DOR.NBFC (HFC).CC.No.111/03.10.136/2019-20; 19. 5.2020; Department of Regulation. [Housing Finance Companies]

Internal ML/TF risk assessment by REs - Amendment to Master Direction (MD) on KYC: RBI/2019-20/221; DOR. AML. BC. No. 66/ 14.01.001/2019-20; April 20, 2020; [The Chairpersons/ CEOs of all the Regulated Entities]

COVID19 Regulatory Package - Asset Classification and Provisioning: RBI/2019-20/220; DOR. No. BP. BC. 63/ 21. 04. 048/ 2019-20; April 17, 2020; Department of Regulation; [All Banks, All IFIs, All NBFCs & HFCs]

COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets: RBI/2019-20/219; DOR. No. BP. BC. 62/ 21. 04. 048/2019-20; April 17, 2020; Department of Regulation; [All NBFC-ND-SI and NBFC-D; Banks, IFIs]

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation: RBI/2019-2020/216; DoR.NBFC (PD). CC. No. 110/03.10.001/2019-20; 17.4.2020; Department of Regulation; [All Non-Banking Financial Companies]

Amendment to Master Direction (MD) on KYC: RBI/2019-2020/207; DOR.AML.BC.No. 61 /14.01.001/2019-20; 01.4.2020;Department of Regulation; [The Chairpersons/ CEOs of all the Regulated Entities]

COVID-19 – Regulatory Package: RBI/2019-2020/186; DOR.No.BP.BC.47/21.04.048/2019-20; 27.3.2020; Department of Regulation; All Banks, All All-India Financial Institutions, All Non-Banking Financial Companies (including Housing Finance Companies)

Priority Sector Lending - Lending by banks to NBFCs for On-Lending: RBI/2019-2020/179; FIDD. CO. Plan. BC. No. 19/ 04. 09. 01/2019-20; 23.3.2020; Financial Inclusion and Development Department; The Chairman/ Managing Director Chief Executive Officer All Scheduled Commercial Banks [Excluding Regional Rural Banks & Small Finance Banks]

COVID-19- Operational and Business Continuity Measures: RBI/2019-2020/172; DoS.CO.PPG.BC.01/11.01.005/2019-20; 16.3.2020; Department of Supervision; [The Chairman / Managing Director / Chief Executive Officer All Scheduled Commercial Banks (Excluding RRBs) All Local Area Banks All Small Finance Banks and All Payment Banks/All UCBs/NBFCs]

RBI extends moratorium by 3 months till Aug. 31

The RBI has extended the moratorium on repayment for term loans by another three months till August 31. All other conditions for the facility remain unchanged, that is, the loan will not be classified by the lender as 'non-performing' and there will not be any impact on the individual credit score. "In view of the extension of the lockdown and continuing disruptions on account of COVID-19, it has been decided to permit lending institutions to extend the moratorium on term loan installments by another three months, i.e., from June 1, 2020 to August 31, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by another three months," the RBI said.

In end March, the regulator announced the moratorium for a three-month period — March 1 to May 31. The banking regulator has also extended the interest payment deferment for working capital loans by another six months. RBI asked lenders to convert the accumulated interest on working capital facilities over the deferment period into a funded interest term loan "which shall be repayable not later than the end of the current financial year".

In the past, banks have been hesitant in extending the moratorium facility to NBFCs. Chairman, SBI, Mr. Kumar said the bank would extend the facility on a case-by-case basis, depending on the cash flows of non-banking institutions. Banks had decided to extend moratorium to NBFCs in case these firms face negative cash flow, that is, if cash outgo is higher than the inflows. [The Hindu/Business Standard, May 22]

RBI measures 2.0: More credit to stressed sectors

RBI on April 17 sought to provide some Rs 1.2 lakh crore of liquidity to sectors that are short of funds, including NBFCs, MFIs, small businesses, the rural community and homebuyers, even as it moved to discourage risk-averse banks from parking their surpluses with it.

Banks will have access to Rs 50,000 crore of cheap long-term credit to be used to lend to NBFCs and MFIs while Nabard, Sidbi and NHB will get a combined Rs 50,000 crore to refinance or on-lend. RBI governor Shaktikanta Das was reassuring in his observations asserting the central bank would go the extra mile to ensure the financial system remained stable. "It is always open for RBI to step up this amount beyond Rs 50,000 crore… as is necessary to see that various segments of the market MFIs, NBFCs, remain well-lubricated in terms of liquidity," Das said in an unscheduled address. [FE Bureau, April 18]

RBI's top brass takes stock of the liquidity situation of NBFCs, MFs

Reserve Bank of India (RBI) Governor Shaktikanta Das, on May 4, took stock of the liquidity situation of NBFCs, including Micro-Finance Institutions (MFIs) and Mutual Funds, with industry representatives. This stock-taking exercise comes in the backdrop of small- and mid-size NBFCs and MFs facing liquidity constraints, in view of the reluctance of banks to invest in the debt instruments issued by the NBFCs and purchase debt instruments from MFs.

Despite RBI providing special liquidity facilities to banks to encourage them to specifically invest in the debt instruments and help NBFCs and MFs tide over liquidity tightness, they are risk averse, as credit risk dues to investment in these instruments will be on their books.

In the case of NBFCs, the RBI top brass assessed post-lockdown strategies for supply of credit, including working capital, to MSMEs (micro, small and medium enterprise), traders, and bottom of pyramid customers in semi-urban, rural, and urban areas.

They also reviewed implementation of the three-month moratorium on repayment of loan installments announced by the RBI and strengthening the grievance redressal mechanisms

While NBFCs have implemented the moratorium for their customers, they are not getting the same treatment for their borrowings from banks. In the case of MFs, the RBI brass reviewed the functioning of the bond markets and their plans for the way forward.

The RBI, in statement, said the Governor acknowledged the critical role NBFCs, including MFIs, play in delivering last mile credit, and the importance of MFs in financial intermediation.

Das held meetings with the representatives of NBFCs and MFs in two separate sessions through video conferencing. The meetings were attended by Deputy Governors and other senior officers of the RBI. [Business Line, May 4]

Draft Frameworks for Sale of Loan Exposures and Securitisation of Standard Assets

RBI has on June 8 placed on its website two draft documents for public comments - the 'Draft Framework for Securitisation of Standard Assets' and 'the Draft Comprehensive Framework for Sale of Loan Exposures'. These guidelines are applicable to all Scheduled Commercial Banks (excluding Regional Rural Banks); All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI); and, all NBFCs including HFCs.

Aimed at development of a strong and robust securitisation market in India, while incentivising simpler securitisation structures, the revised guidelines attempt to align the regulatory framework with the Basel guidelines on securitisation that have come into force effective January 1, 2018. One of the key changes relates to differential treatment for Residential Mortgage Backed Securities (RMBS) compared to other securitisations in respect of prescriptions regarding minimum holding period (MHP), minimum retention requirements (MRR) and reset of credit enhancements. Further, the regulatory guidelines for direct assignment transactions are proposed to be separated from the securitisation guidelines and subsumed under a separate set of Comprehensive Guidelines on Sale of Loan Exposures. The comments may be submitted to the RBI by email latest by June 30, 2020. [RBI Press Release, June 8]

RBI extends priority sector classification for bank loans to NBFCs to FY21

RBI has decided to extend priority sector classification for bank loans to NBFCs for on-lending for FY 2020-21. As per the August 2019 circular, bank credit to registered NBFCs (other than microfinance institutions) for on-lending was eligible for classification as priority sector up to March 31, 2020.

A bank can classify fresh loans sanctioned by NBFCs to the priority sector — agriculture, micro & small enterprises (MSEs) and housing — out of bank borrowings.In its latest circular, the RBI also said that existing loans disbursed under the on-lending model will continue to be classified under the Priority Sector till the date of repayment/maturity.

Bank credit to registered NBFCs (other than MFIs) for on-lending is classified as priority sector under respective categories subject to conditions — on-lending by NBFCs for the 'term lending' component under agriculture is allowed up to Rs. 10 lakh per borrower; on-lending to micro & small enterprises is allowed up to Rs. 20 lakh per borrower; and on-lending by housing finance companies (HFCs) for housing is allowed up to Rs.20 lakh per borrower. The RBI said Bank credit to registered NBFCs (other than MFIs) and HFCs for on-lending will be allowed up to an overall limit of 5 per cent of the individual bank's total priority sector lending. [Business Line, March 23]

RBI asks banks, NBFCs to carry out first money laundering & terrorist financing risk assessment by June 30th

RBI added a new section in the Master Directions on KYC wherein regulated entities need to carry out money laundering (ML) and terrorist financing (TF) risk assessment exercise periodically. "A new section (5A) has been added to chapter II of the MD on KYC requiring REs to carry out 'Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment' exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc. While assessing the ML/TF risk, the REs are required to take cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share with REs from time to time," the central bank said.

The regulated entities include banks, NBFCs, financial institutions, and all payment system providers. RBI further added that the internal risk assessment carried out by the RE (registered entities) should be commensurate to its size, geographical presence, complexity of activities/structure. [ETBFSI, April 21]

RBI Clarification on COVID19 Regulatory Package - Asset Classification and Provisioning

FIDC had sought clarification regarding COVID 19 - Asset Classification & Provisioning circular. Para 3 of the clarification refers to various scenarios. FIDC requested RBI to confirm or clarify its understanding:

RBI GM, DoR, RBI, CO vide letter dated May 12 clarified: "The interpretation is that if an SMA account had slipped into NPA as on June 1, 2020, had the moratorium and the asset classification benefit not been taken, then 10% provision needs to be kept. For illustration, given the account is SMA1 as on 01.03.2020 and only one installment is paid in March, then the account, in the normal course, would have become NPA on May 31, 2020. In that case, 10% provision will have to be made as on June 1, 2020."

Govt in talks with RBI to ensure needy NBFCs get to tap Rs.30,000-cr package

The sector, already strapped for liquidity even before the Covid-19 pandemic and the ongoing lockdown, is a key element of India's revival strategy.

The government is in talks with the RBI on how best to ensure that the Rs.30,000 crore relief package for nonbanking finance companies (NBFCs) is targeted at those that need it most, particularly since lower-rated paper of investment grade will be the focus, said three people with knowledge of the matter. This assumes importance for mutual funds or even both. The bonds will be of shorter maturities — anything between two and five years. NBFCs are seeking bond subscriptions only from the primary market. "It has to be from the primary market or else it is not new money," said the treasury head of a Mumbai-based NBFC. "Secondary market subscriptions would not help us." [Saikat Das, Economic Times, May 20]

FIDC sought several clarification on IND AS from RBI

FIDC on February 12 sought several clarifications from Reserve Bank regarding IND AS as MCA (Ministry of Corporate Affairs) has notified it and made applicable from April 01, 2018 for NBFCs but RBI has not issued any Guidelines for RBI disclosures under IND AS. Many terminologies like Provision of Standard assets, Gross NPA, Net NPA which are not applicable under IND - AS still continue under Existing RBI disclosures. DPD Concept for classification of NPA in Substandard assets, Doubtful assets and loss assets are not available under IND AS – 109. Financial instruments, provision is done on ECL (Expected credit loss) model which depends upon the staging of the assets (Stage 1, stage 2 and stage 3). More over explanation on treatment of securitized assets in CRAR calculation is not given by RBI. Also, RBI Return format has not been revised in line with IND AS. Existing RBI returns are still under IGAAP.

RBI has merged three categories of NBFCs for harmonization of different categories of NBFCs. But existing return does not allow the selection of new category for submission of returns. Sr. No. 14 of the Statutory Audit Report SAC format is also not in line with RBI circular on Harmonisation of different categories of NBFCs. Although, NBFC-D are required to submit CRILC-Main Report on monthly basis but the existing excel utility available does not allow us to select month except June, September, December and March. Currently NBFCs are required to file the data in CRILIC platform; however the access of data from CRILIC is not available for NBFCs which is available to Banks. The access for the same needs to be provided for NBFCs also, said Mahesh Thakkar, FIDC director general.

RBI has on 13 March notified guidelines on Implementation of Indian Accounting Standards.

Targeted Long-Term Repo Operations (TLTROs)

Reserve Bank to conduct auctions of targeted long-term repos of up to three years tenor of appropriate sizes for a total amount of up to Rs.1,00,000 crore at a floating rate linked to the policy repo rate. Liquidity availed by banks under TLTROs should be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020. [RBI, Monetary Policy Report - April 2020, April 13]

All payments via cards can now be contact-free

RBI has given the green signal to the country's payment networks - Visa, Mastercard and NPCI - to allow tap-and-go functionality on card payments for all purchases at retail stores and shopping centres, a move aimed at making such transactions safer and contact-free during and after the coronavirus pandemic. After due upgrades by banks and payment service providers, customers can avoid swiping their credit and debit cards at shops enabled with contactless point-of-sale devices, even for purchases exceeding the current limit of Rs. 2,000. Tap-and-go card payments for purchases above Rs.2,000 will require two-factor authentication and customers must enter a PIN to process the transaction. [ETtech, May 01]

RBI proposes new rules for HFCs

RBI on June 17 proposed new rules for governing home financiers, including putting restrictions on lending to builders and doubling the minimum net owned funds criterion. The regulator's proposal has also clearly defined home finance firms and those that are systemically important among them. RBI has also proposed that home financiers should not be simultaneously allowed to lend to a real estate developer as well as homebuyers in the developer's project. [Live Mint, June 18] ■

Rescheduling instalments may be better than a moratorium: Ramesh Iyer

"We have made Covid-19-related provisioning in the March quarter. We believe that even by May-end things will open up slowly and normalisation could take another 60 - 90 days," Iyer said

Ramesh Iyer, Vice Chairman and Managing Director, M&M Financial Services says some of the rescue measures announced by the government and the easing of lockdown could give a fillip to vehicle financiers. Iyer, who is also the chairman of Finance Industry Development Council (FIDC), a representative body for non-banking finance companies, tells Hamsini Karthik and Shreepad S Aute, that flexibility to reschedule monthly instalments would benefit NBFCs. Edited excerpts:

You had earlier said that this year's festive season would be the recovery phase for vehicle financiers.

I'd hold on to the guidance that festival season would see the first turnaround for the industry. If the lockdown starts to ease substantially, then the semi-urban and rural market will start seeing a lot of positive vibes from October onwards. Let's say the moratorium ends in May, I don't think customers will be immediately able to start repaying from June onwards. They might take a few months to get back to the street. They may have to repay some small loan liabilities taken during the lockdown. So, sometime post September is when the positivity would return. Assuming that the monsoon is above average, then farm cash flows would also start looking up post October.

You have indicated that the moratorium may not extend beyond May, which is different from what the banks are saying.

Our request, and that of the FIDC, is that instead of a moratorium, allow us to reschedule customer contracts. While somebody might need another 40 days to repay, another person might need a smaller ticket size loan. So, if you give a moratorium to everybody on the retail front that might not work well. People might avail the moratorium, but it may not be useful for them. Some businesses might need a smaller EMI to service the loan until the situation becomes normal. Take the case of cab aggregators. For the next six months, they might not have adequate business. Even when they come back, they might not have the same size of business. For them, reducing the EMI from Rs 12,000 a month to Rs 8,000 a month, might work better than a 90-day moratorium. Similarly, farmer loans also don't need a moratorium. They may take moratorium and choose to pay the lender later, while using up the cash. So, if you announce a blanket moratorium, you can't pick and choose customers.

We are requesting the regulator to allow rescheduling of instalments, without additional provisioning and allow only for standard assets, which we can very meticulously use on a customer to customer basis. Customers in green zones may need a shorter time to get back to normal, whereas those in red zones might need more time to get back to business. There is another problem with the moratorium. The repayment culture of customers can change. When we reschedule, the customer will at least make some payment towards the loan during that period. In February, the regulator allowed for one-time restructuring of MSME loans. We want these norms to be extended to retail loans.

Will the measures announced over the past few days for the agri sector and daily-wage labours help the rural economy and your company?

More money in the hands of farmers and reaching out to them in a transparent manner will boost the sentiment for the rural sector. As far as migrant labour is concerned, it is important to allow them to get employment locally (in rural areas). Once labourers are deployed better and they start earning something, rural consumption will restart. Migrant labour also includes drivers. These people could buy second-hand cars/vehicles, or new pickup vehicles and can start living their life. I'm not expecting that they will come back to the metros soon. There is also a lot of discussion around infrastructure storage opening up in the rural market. So, we will once again see what we saw in 2010-14, that when farm and infrastructure sector cash flows improve, the rural story bounce back is phenomenal. If there is more money in the hands of the farmers, I believe, it will first go for discharging the farmers' liability, rather than acquiring an asset, which will be the second step. Given the harvest season is good, the month of May could be good in terms of collections.

What is your expectation on loss given default (LGD)?

We have made Covid-19-related provisioning in the March quarter. We believe that even by May-end things will open up slowly and normalisation could take another 60 – 90 days. Between June and August, borrowers should be able to service at least one EMI, if not all three, and may not become delinquent accounts by September.

You were piloting consumer durable loans and personal loans. Where do these plans stand now?

Rolling out consumer durable loans will have to be held back for some time as I don't think that people will come out and buy these assets. People will more likely conserve cash, until they know what lies is in store for them. Extending personal loans to current customers will be an exciting and useful product now, because many customers will need temporary support for 3 – 6 months, until they stabilise their earnings. Hence, such a product will do well and pick up much faster.

The way banks and the regulator have dealt with extending the moratorium to NBFCs; do you feel that has been done more seamlessly and without much confusion?

Initially, when the moratorium was introduced, the understanding was that it would be extended to NBFCs also. Somewhere in the FAQs, that was dropped. Then subsequently, there were some representations and meetings, and banks have now started extending the moratorium to NBFCs, or whosoever wants it. It could have been done earlier, but it has been done now. On the liquidity front, I agree that the long-term repo operations (LTRO) route did not pick up so much. But now, with the new announcement for MSMEs and NBFCs, it will help mid-size and small NBFCs.

Large NBFCs haven't availed the moratorium.

Look at it this way, we always resorted to good ALM (asset-liability management). We knew inflows were going to be very low, but at the same time, disbursements aren't high during this period. So, the need for a moratorium does not arise. If at all there was any requirement, we would rather resort to extra borrowing instead of the moratorium. Large NBFCs with a good track record, promoter backing and ratings have not had a problem on draw-down of loans, which is why we aren't asking for a moratorium. The real issue is for smaller NBFCs, which are not rated and are dependent on banks for borrowing.

Do you believe that the recent measures announced by the finance minister to push liquidity for NBFCs would improve the sentiment towards low-rated or smaller NBFCs?

I think the measures will definitely help the small NBFCs, especially the Rs 45,000 crore scheme (partial credit guarantee scheme). However, the lending institutions will definitely look at the overall performance of the entity and only then will they take a call. However, the measures are definitely aimed at supporting small and medium NBFCs. [Business Standard, May 17] ■

Continue to give a differential treatment to NBFCs: Former RBI Governor Duvvuri Subbarao

The former RBI governor also revealed that upon leaving the RBI, he was questioned as to why Non Banking Financial Companies (NBFCs) were given a step motherly treatment by the regulator. Subbarao on the topic of NBFCs said "I know from my experience that the RBI attaches enormous value to what the NBFCs are doing," whilst also adding that "We should continue to give a differential treatment to NBFCs so that they can continue to add value to the economy." [ETBFSI, May 27]

ALM ISSUES WERE BLOWN OUT OF PROPORTION; SEEK ONE TIME RESTRUCTURING: RAMAN AGGARWAL, Co- Chairman, FIDC

Q. How do you view the NBFC situation?

The entire game started changing in September 2018, prior to that the sector was growing at more than 15%. **The growth came on account of good business and few PSU banks had gone into Prompt Corrective Action (PCA) category and lending got restricted creating a gap filled by NBFCs.** The moment IL&FS happened it triggered off a negative sentiment in the market. The ripples are still being felt. **On the ALM mismatch, NBFCs actually never had a serious ALM issue**, today NBFCs are into retail, small ticket lending size short tenure lending. And there's no question of ALM mismatch because they've commensurate borrowing in bonds, debenture, etc. for 2-3 years. The problem lies with long term players like Housing Finance Companies or Infra Financing Companies.

The Infra financing companies are 8 in total out of 8800 registered NBFC, out of which 8 infra financing, 5 are owned by the Government, Potentially, ALM issue would be in those 3-4 NBFCs only. **What happened was as the going was good, NBFCs were able to raise short term borrowing through Commercial Paper (CP) at 6-7% and there was interest arbitrage and things were getting rolled over.** For e.g. Out of Rs 100 crore, NBFC would keep Rs 30 crore as cushion utilising only Rs 70 crore and instead of that Rs 30 crore, it will do CP borrowing, and with things getting rolled over CP, where the bank line was kept as cushion and it was never a question of solvency or default happening.

The IL&FS moment made banks risk averse and withdrew the unutilized credit line, so that Rs 30 crore was withdrawn which created pressure in the system. This was the only problem of ALM, however if we see the March 2019 figures the total quantum of CP borrowing came down to only 5% so the issue was corrected, but the risk averse continued.

The FM's earlier announcement of partial credit guarantee and RBI's OMO didn't result in liquidity coming from banks to NBFCs due to the risk averse attitude of banks.

Larger policy issue remains over the dependence of NBFCs on banks to raise funds. There's a need to diversify sources of funds, while banks remain to be a big source of credit line. Small NBFCs who don't have access to capital markets have to rely on banks for funding.

The FM's recent announcement is a historic moment where Govt. has given sovereign guarantee both in NBFCs lending as well as borrowing what more we could ask for. Hopeful the implementation will happen as we wait for fine print.

Q. Banks would still hold a major source of liquidity?

The SPV will be created and SPV will invest in NBFC bonds, which was recommended by FIDC, also the way Partial Credit Guarantee 2.0 provides guarantee on the entire liability side of borrowing is interesting and helpful.

Q. Course correction as an association?

As an association with a voluntary basis we do some level of self-regulation and when the ALM issues were being highlighted, we had generally been in touch with our borrowers and then we came out with an actual story where there was no actual ALM mismatch issue it was much with long term players. Subsequent to the general discussion we saw the corrections happening with CPs coming down to 5%, so I think there was never such a serious issue. **It was more blown out of proportion and didn't see much issue of solvency.** NBFCs will continue to meet their liability and the issue was growth not only for us but others too. We're intermediaries and we can't keep the money with us.

Q. Regulatory support missing for NBFCs?

It's human nature what happens, one never feels satisfied. We've had regular dialogues and had detailed discussions with the RBI Governor, The NPA norms we had asked for were allowed by RBI. **Today the key ask has been made to the regulator to allow onetime restructuring of loans, the borrowers whom we cater have seen their cash flows getting disrupted.** The original scheme of things have gone haywire due to the covid-19 lockdown, the EMIs decided are no longer possible, they definitely need realignment based on what they expect. **[Ishan Shah,** ETBFSI, May 21]

Much of short-term credit demand will be for working capital: TT Srinivasaraghavan

TT Srinivasaraghavan
MD, Sundaram Finance

The focus of NBFCs should be getting businesses back on their feet, says Sundaram Finance MD and the founder chairman of FIDC

How would you describe the government's stimulus measures for NBFCs/MFIs/HFCs? Will they give a much needed breather to NBFCs?

These are definitely welcome measures as they address the specific issues that NBFCs, especially the small and mid-sized ones, have been facing. These, together with the allocations made by the RBI to NABARD, SIDBI and NHB, should provide much-needed relief to them. As always, there is concern over the actual execution of these measures and the flow of money to those who really need it. I do hope that there will be no impediments in the flow of credit to these entities.

Is the latest partial credit guarantee scheme more liberalised vis-à-vis the previous version?

I have not had the opportunity to compare the two. However, the one major relaxation this time is that 'AA paper and below, including unrated paper eligible for investment' is covered. They are doing what they can, under the circumstances, but ultimately it comes down to the risk appetite of lenders and investors. IL&FS and DHFL are not representative of the typical retail financing NBFCs and it is unfortunate that companies are being penalised for those high-profile failures.

Since demand side factors remain constrained, when do you see a rise in credit offtake?

We are in the throes of the pandemic and the flattening of the curve is still elusive. I don't see anything significant happening on the demand side in Q1 and perhaps some improvement in Q2. Much of the credit demand in the near term will be for working capital rather than asset acquisition. Small businesses, including transport operators whose livelihoods have been frozen for nearly two months, will need working capital to get back on their feet again and rebuild their lives.

Which are some of the segments where credit offtake would be better in the next two or three quarters?

Commercial vehicle sales were anyway expected to be dismal in light of the BS-VI changeover. Passenger cars, after a dismal performance in the previous year, were expected to stage a revival, but Covid-19 happened. There are those who believe that with social distancing set to become the norm, demand for 'personal transport' could see a surge, especially in the entry-level segments as well as in pre-owned cars. This might provide a boost to car sales in the second half.

Apart from seasonal agri cargo and government's free foodgrain distribution plan, do you see any other factor that will improve truck fleet utilisation levels this fiscal?

Infrastructure is potentially the other big opportunity. As I recall, the budgetary allocations for this sector are significant and if the various projects get moving, that could make a difference. However, in the near term, much of the focus should be on getting businesses back on their feet. The disruption caused by the pandemic is likely to have far-reaching consequences for thousands of businesses, big and small. Longer working capital cycles will result in severe cash flow strains and banks and NBFCs have a critical role to play in ensuring their recovery. NBFCs, through their trade body FIDC, have also appealed to the RBI to permit a one-time restructuring of loan accounts in order to provide some degree of relief to transport operators and other small businesses. These are extraordinary times and call for solutions beyond the ordinary.

When do you expect demand revival in the CV sector, M& HCV in particular?

I would love to meet the person who knows the answer to this one ! [G Balachandar, Business Line, May 21]

NBFCs COULD CONTINUE TO FACE FINANCING PRESSURES

"Measures undertaken by the Reserve Bank have considerably eased the stress in market conditions; however, stress is still visible in certain areas of the market. This appears to suggest that the problem is not just of liquidity but, possibly, of expectations of deterioration in credit quality on account of COVID-19 related disruptions. The emerging developments indicate a need for policy interventions, which go beyond liquidity related measures to credit related ones. There is a need for ensuring flow of credit/liquidity to NBFCs with concrete credit backstop measures to address the risk aversion in the system, bridge the trust deficit and restore confidence." RBI Paper (RBI Monthly Bulletin - June 2020)

Secured creditor's claim above taxmen's

The income tax authorities cannot claim a superior right to attach a property already sold under the direction of the debt recovery tribunal, the Supreme Court stated in its judgment in Connectwell Industries vs Union of India. "Unless there is preference given to the Crown debt by a statute, the dues of a secured creditor have preference over Crown debts," the court clarified. In this case, a firm took a loan from Union Bank of India to buy a plot from Maharashtra Industrial Development Corporation (MIDC). The loan was not repaid. The bank moved the tribunal, which asked the recovery officer to attach and sell the mortgaged property. It was sold through an auction. Then came a note from MIDC that the income tax authorities had already sent an attachment notice over the same property. When the dispute reached the Bombay High Court, it ruled in favour of the revenue authorities. The buyer of the property appealed to the Supreme Court. It set aside the high court judgment and lifted the attachment of the taxmen. It further ordered MIDC to issue a no-objection certificate to the buyer. [Business Standard, March 15]

Presumption of waiver in arbitration

If a party joins arbitration proceedings without raising objections regarding jurisdiction of the court, it cannot raise the issue at a later stage, especially after the pronouncement of the award. The Supreme Court stated so in its judgment in Quippo Construction Equipment vs Janardan Nirman. In this case, there were several contracts between the equipment rental company and the infrastructure firm with respect to projects in eastern India. The agreements named New Delhi or Kolkata as venues if arbitration were to be invoked. Disputes arose and the arbitration award was in Quippo's favour. Then litigation started over the venue and jurisdiction of the arbitrator. In an appeal against the Calcutta High Court judgment, the apex court stated Janardan let the arbitral proceedings go on without raising objections which concluded in an ex-parte award. Therefore, it could be said to have waived the right to raise any objection concerning jurisdiction.[Business Standard, May 11]

Supreme Court Extends Time Limit to File Arbitration, Cheque Bounce Cases

The Supreme Court extended the maximum time limit to initiate arbitration or proceedings in case of dishonoured cheques as the lockdown to contain Covid-19 have delayed judicial proceedings. The Supreme Court bench headed by Chief Justice SA Bobde extended the limitation period for all cases under the Arbitration and Conciliation Act and the Negotiable Instruments Act with effect from March 15, according to an order. The apex court said the duration after March 15 and till 15 days after lifting of lockdown in respective jurisdictions will be excluded from the period of limitation. The order was passed in a suo motu hearing taken up by the top court. [BloombergQuint, May 6]

SC directs RBI to ensure implementation of moratorium on EMI

The Supreme Court on April 30 directed the Reserve Bank of India to ensure implementation of the Circular dated 27 March which granted three-month loan moratorium from paying EMIs and other loans amidst the nationwide lockdown due to covid-19. The three judge bench headed by Justice NV Ramana heard the case through videoconferencing and also sought a response from the Solicitor General Tushar Mehta as to whether the borrowers are also covered under the benefits granted by RBI during this lockdown period. [Live Mint, April 30]

Force majeure pleas in times of Covid-19

Legal consequences of the coronavirus-triggered lockdown have apparently been dealt with differently by high courts, and the Supreme Court is yet to grapple with them in an appeal. The Delhi High Court last week stayed the encashment of eight bank guarantees because of the "unprecedented" lockdown and called it force majeure (unforeseeable circumstances beyond human control). The interim order was passed in the suit Halliburton Offshore Services vs Vedanta. The latter was restrained from invoking the bank guarantees. [Business Standard, April 26]

Govt mulling more policy action for NBFCs, regulatory changes for markets

The government is considering additional policy measures for non-banking financial companies, and regulatory changes to ensure the stability of the financial system, Business Standard has learnt. This comes after Finance Minister Nirmala Sitharaman interacted with the country's top regulators at a meeting of the Financial Stability and Development Council on May 28.

Informed sources said that a substantial part of the meeting was focussed on the continuing volatility in the securities markets, and the liquidity issues faced by NBFCs and HFCs amidst the Covid-19 pandemic and the nationwide lockdown, which has affected all sectors.

Over the past few months, the government, RBI and SEBI have already announced a slew of measures aimed at various sectors and financial markets. In the meeting, SEBI is learnt to have suggested strategies to increase domestic investment in the financial markets along with the possible ways to enhance capital flow in equity markets.

Representatives from RBI, meanwhile, raised concerns over liquidity challenges being faced by NBFCs and various state and micro finances. A representation with this regard along with the proposed action has been also shared with the ministry.

The central bank also raised the issue of debt markets particularly, secured and unsecured non-convertible debentures, which assumes significance after several companies have reached out to RBI and SEBI seeking relief as some of them raised significant amount of money through NCDs which are close to maturity. [Shrimi Choudhary & Arup Roychoudhury, Business Standard, May 29]

Enable digital onboarding of customers for regulated NBFCs: IAMAI to Government

The Internet and Mobile Association of India (IAMAI) has appealed to the Government to enable digital onboarding of customers for all regulated non-banking financial services entities like prepaid instruments (PPI), NBFCs and lenders. The digital onboarding (digital verification by submitting soft copies of documents) is to avoid physical interaction between the customer and employees of the entity, IAMAI said in a statement. The association highlighted that physical Know Your Customer (KYC) is not feasible under the present circumstances. [Business Line, April 14]

NBFCs are requested to extend additional lines of credit to small and medium MFIs by Sa-dhan

Sa-Dhan, a Self Regulatory Organisation recognized by RBI for the Microfinance Sector has stated in a letter to FIDC that "The support extended by RBI and Ministry of Finance are not percolating to the smaller MFIs. Taking cognizance of the situation, we would like to request FIDC to facilitate more credit, at priority basis, to the smaller MFIs having portfolios under Rs. 100 crore. It will help these MFIs to cater the unreached poor population at their door steps, in a timely manner."

Giving backgroung Sa-Dhan mentioned that "some NBFCs have direct portfolio of microfinance and around 90 NBFCs are financing MFIs, both NBFC-MFIs and Non NBFC MFIs. This support is almost lifeline for the smaller MFIs. Around 50 smaller MFIs are sourcing funds from NBFCs; even 10 big MFIs are also sourcing from NBFCs. This support helps the MFIs, to cater the needs of the poor clients and also raising funds from other sources."

Sa-Dhan in view of relationship between NBFCs and MFIs said "we request FIDC to advise your member NBFCs to extend additional lines of credit to MFIs-especially the small and the medium ones." Responding to this request Mahesh Thakkar, director general, FIDC advised large NBFCs members "In this critical time, these small NBFCs and MFIs need additional financial support which may be considered independently at your company level with sympathy to our fellow-brothers."

Sidbi launches special liquidity scheme for MSMEs

The Small Industries Development Bank of India [Sidbi] on April 23 launched a special liquidity scheme for Micro, Small and Medium Enterprises (MSMEs) through banks including Small Finance Banks (SFBs), NBFCs including fintech NBFCs and Microfinance Institutions (MFIs). Sidbi said in a statement, adding that the tenor of these loans will be 90 days. [This is now extended to one year]. This follows the special Rs. 15,000-crore liquidity window announced by the RBI to meet the credit needs of MSMEs.

The eligible NBFCs should be registered with RBI as Investment and Credit Company (ICC) and should have been in business for at least three years. They should have a minimum net owned funds of Rs. 20 crore and have a credit rating of a minimum of 'BBB-' or equivalent as on March 31, 2020.

Similarly, MFIs eligible under the scheme should also be in operation for at least three years and registered as a society, trust, company/Section 8 company, NBFC-MFI or co-operative society. They should have a credit rating of at least 'BBB-' or equivalent as on March 31, 2020. [Business Line, April 23]

MCA allows companies to hold AGMs through video conferencing

The Ministry of Corporate Affairs (MCA) on May 5 allowed companies to hold their annual general meeting (AGM) by video conferencing (VC) or other audio-visual means (OAVM) during 2020. The ministry cited need for continued adherence to social distancing norms and restrictions placed on the movement of persons as reasons for the same.

Owing to the difficulties in sending physical copies of the financial statements, the MCA allowed companies to send their financial statements, along with board's reports, auditor's reports and other required documents required via email. The ministry said the framework provided for the holding an extraordinary general meeting (EGM) would be applicable for AGMs. Last month, the ministry had allowed companies, whose financial year ended on December 31, 2019, to hold their AGM by September 30. [Source: Moneycontrol.com, May 5]

Implementation of Stamp Act changes deferred by 3 months till July 1

The Revenue Department on March 30 said the provisions of the amended Indian Stamp Act, which was to come into force from April 1, will now be effective from July 1. To rationalise and harmonise the system of levying stamp duty and help curb tax evasion, the government had through Finance Act 2019 amended the Indian Stamp Act, 1899. Certain changes were to be effective from April 1, 2020.

As part of the amendments, it was decided that the stamp duty rates levied by Maharashtra will be taken as a benchmark as it accounts for 70 per cent of the total collection. [Business Standard, March 30]

MEET WITH PSBs: Smooth credit flow, NBFCs top FM agenda

FINANCE MINISTER Nirmala Sitharaman on June-9 asked state-run banks to ensure smooth credit flow under the Rs.3-lakh-crore loan programme, mainly for small and medium businesses, and expedite the progress of two schemes meant to facilitate Rs.75,000-crore liquidity for NBFCs, sources told FE. The FM held a crucial meet with top executives of state-run banks and Sidbi on June 9 to review the implementation of various schemes under the Rs.21- lakh-crore relief package.

Also discussed was the partial credit guarantee scheme (PCGS) 2.0 worth Rs. 45,000 crore, which is aimed at improving liquidity for low-rated NBFCs. The government has also eased certain criteria for the pooled purchase of NBFC assets by state-run banks under the existing PCGS 1.0. The minister also reviewed the progress of a special liquidity scheme worth Rs.30,000 crore for NBFCs. Under this, the RBI will indirectly purchase debt sold by NBFCs, HFCs and MFIs, an official source had said recently. A large state-run bank will set up a special purpose vehicle (SPV) to manage a stressed asset fund, which will raise money by issuing securities worth Rs.30,000 crore guaranteed by the government. These securities will be purchased only by the central bank. The government will contribute Rs. 5 crore towards the equity of the SPV. [Financial Express, June 9]

Some financial offences like bouncing of cheques may be decriminalised

The government is looking to reclassify several offences under financial sector laws, including the bouncing of cheques, as civil offences rather than criminal ones to improve the ease of doing business and unclog the courts. These will then be punishable only by monetary penalties, not jail time.

The Department of Financial Services has sought public comments on decriminalising 39 sections in 19 acts under its administrative purview including the Banking Regulation Act, the RBI Act, the Insurance Act and the Negotiable Instruments Act.

"Criminalising procedural lapses and minor non-compliances increases burden on businesses and it is essential that one should re-look at provisions which are merely procedural in nature and do not impact national security security or public interest at large," the DFS said in the statement of reasons explaining the rationale behind the proposed move. [Economic Times, June 10]

Ordinance soon: Cabinet OKs proposal to amend IBC

The cabinet approved a proposal to amend the Insolvency & Bankruptcy Code (IBC) to prevent companies from being forced into resolution proceedings due to loan defaults triggered by the Covid-19 crisis. An ordinance will be issued soon to empower the government to exclude Covid-19-related debt from the definition of "default" under the code for the purpose of triggering insolvency proceedings. [ET Bureau, June 4] ■

SEBI MOVES

No default rating for NBFCs due to Covid-related payment delays: SEBI

SEBI Eases Minimum Public Shareholding Norms amid Virus Outbreak : SEBI directed bourses and depositories to not take any penal action against listed entities that fail to meet the meeting minimum public shareholding requirement, in a move aimed at easing such compliance rules amid the disruptions caused by the coronavirus pandemic." Under SEBI norms, listed entities are required to have at least 25 percent public shareholding. [BloombergQuint, May 14]

In a major relief to NBFCs, markets regulator SEBI said that if an NBFC doesn't pay a mutual fund principal or interest or both due to Covid-related issues that should not be considered as a default by the valuation agencies while valuing money market instruments and debt securities held by mutual funds. Extension of maturity of a debt security, also due to Covid-related developments, should also not be seen as a default by these agencies, the SEBI circular said.

Don't consider repayment delays as default: SEBI to credit ratingagencies

SEBI on March 30 asked credit rating agencies not to consider as default any delay in payment of interest or principal loan amount arisen solely due to the nationwide lockdown conditions. The move follows a three-month moratorium on payment permitted by the Reserve Bank of India to mitigate the burden of debt servicing due to disruptions caused by the coronavirus pandemic and to ensure continuity of viable businesses.

In a circular, the SEBI said a differentiation in treatment of default, on a case to case basis, needs to be made as to whether such default occurred solely due to the lockdown or loan moratorium.

Pro-active SEBI steps to help firms tide over Covid-19 challenges

SEBI has taken several proactive measures in easing the burden of corporates in regulatory compliance by introducing relaxations like extension of date for filings to be made to stock exchanges like quarterly and annual financial results, corporate governance report, shareholding pattern, etc, for listed entities.

The regulator has also granted a one-time relaxation in its primary market fundraising norms to make it easier for companies to raise capital amid the Covid-19 pandemic. Rights issues are now considered successful if the minimum subscription receivedis75%, as opposed to 90%earlier. Further, in case of fast-track issues, the eligibility criteria of average market capitalization of public shareholding of the issuer has been relaxed to Rs. 100 crore from Rs. 1250 crore earlier. [Financial Express/PTI , April 22]

SEBI's Other Actions in Brief:

Impact of Covid-19 : Market regulator SEBI has asked all the listed companies to prepare an impact analysis of Covid-19 on their respective business and present a picture to the investors. [Business Line, May 20]

SEBI eases 90-day post-default curing period for rating agencies : SEBI on May 21 said credit rating agencies can deviate from the 90-day period requirement to upgrade the rating of an entity from default to non-investment grade on a case-to-case basis. There is a post-default curing period of 90 days for the rating to move from default to speculative grade and generally 365 days for default to move to investment grade. [Financial Express, May 21]

SEBI eases compliance norms for listed firms further : SEBI scrapped, for 2020, the requirement of companies to dispatch to holders of securities in all cases physical copies of annual reports and proxy forms mentioning that a holder may vote for or against a resolution. It also clarified on proxies and their right to vote. SEBI's decision is in line with a 5 May corporate affairs ministry circular allowing companies to hold annual general meetings through video conferencing or any other audio-visual means in 2020. [Live Mint, May 13]

SEBI eases compliance requirement for rights issues amid lockdown : Markets regulator SEBI on May 6 gave certain relaxations to companies from compliance with procedural norms pertaining to rights issues opening up to July 31 amid the coronavirus lockdown. The regulator said the abridged letter of offer, application form and other issues material to shareholders can be undertaken by electronic transmission as already provided under the ICDR (Issue of Capital and Disclosure Requirements) norms. Failure to adhere to modes of dispatch through registered post or speed post or courier services due to prevailing COVID-19 related conditions will not be treated as non-compliance, SEBI said in a circular. [Business Standard, May 6]

SEBI propose to ease funding norms for stressed companies : SEBI on April 22, proposed to relax funding norms for companies with stressed assets to help them inject some funds and stave off bankruptcy. The regulator proposed the move in its consultation paper, and sought public comments by May 13.

The SEBI eased the funding norms by relaxing pricing guidelines for preferential issues. A preferential issue is a primary market issuance of shares by listed companies to select groups of institutions (or qualified institutional buyers). Until now, the financial investments for such issues were based upon the weighted average price of the last six months or the two weeks whichever was "higher". [ETBFSI, April 23] ■

FIDC - A CRUSADER FOR CAUSE OF NBFCs IN TIMES OF COVID-19 CRISIS

"The global economy is inexorably headed into recession… Domestic economic activity has been impacted severely by the 2 months lockdown due to Covid-19,"said Shri Shaktikanta Das, Governor, Reserve Bank of India on May 22 in his statement. FIDC had sensed it almost in last week of March. That perception was reflected in SOS like call to the Finance Minister saying 'CORONA VIRUS AND IMMEDIATE RELIEF FOR NBFCs' in its letter's title addressed to Her and further added "as the country emerges from the shock and starts to rebuild itself…" No other organization of finance entities, as reflected in media, had perhaps taken it as seriously as FIDC the task of Protecting NBFCs, their borrowers and Nation Rebuilding after this devastating impact on Health and Wealth of Nation due to Covid-19 and longest lockdown affecting largest number of human beings in the world. FIDC wasted no time and all possible alarm bells it started ringing loud and clear as NBFC Sector was hoping to come out from Liquidity conundrum and expecting better days ahead after the shock of IL&FS fiasco of 2018.

SPIRIT OF A CRUSADER: Even Lockdown did not deter FIDC's Top Brass and FIDC's Director General. With spirit of crusader FIDC Top Team moving all related and concerned authorities [Government-FM, Home Ministry, MCA; Regulatory and other authorities-RBI, SEBI, ICAI, SIDBI] with what is the need of hour, even foreseeing mid-term requirements due to consequences and impact of Covid-19 and Lockdown on economy with humble, polite but firm demands persistently. The flurry of persuasive Representations to authorities, virtual interactions and cogent and fact-studded communications and pleas with the authorities supported with newly build up techno-media of Tweeter, Facebook and LinkedIn as well as refurbished website FIDC obviously attracted the attention of media and analysts as well as financial columnists. Media support and Credit Rating Agencies' forewarning reports helped building conducive case for NBFC sector's requirements of liquidity, Government Guarantee, moratorium and funding especially for smaller and medium sized NBFCs for which pleas made by FIDC as well as business leaders of NBFCs in their interviews, webinars etc.

FIDC's these endevours and their outcome were aptly articulated by Sa-Dhan, SRO of MFIs recognized by RBI in a letter to FIDC noted that "We appreciate the substantial contribution of FIDC to tide over the impact of COVID 19, on NBFCs. These efforts are reflected in the decisions of regulators and Ministry of Finance. COVID 19 also brought together the industry associations/ SROs to work in tandem."

DECLARATION OF PACKAGE ON MAY 13 BY FINANCE MINISTER: As a part of AtmaNirbhar Package when several facilities for NBFCs were declared by Finance Minister on May 13, Raman Aggarwal, Co-Chairman, FIDC said, "the FM's announcement is in line with what the sector had been demanding and the sovereign guarantee is historic." FIDC wishes to thank the Hon'ble Finance Minister Mrs. Nirmala Sitharaman for announcing several measures to assist the NBFC sector and FIDC noted that "..we are happy to note that the Government has recognised the contribution made by the sector in providing the last-mile financial assistance to under-served sectors such as small road transport operators, contractors, MSMEs and small farmers. FIDC has been requesting for four key measures announced by the Hon'ble Minister today..." said Mahesh Thakkar, director general FIDC.

While FIDC chairman Ramesh Iyer tweeted: "Thank You FM Providing Liquidity & Guarantee Support to NBFCs who lend to MSME will go a long way to kick start the Sector." In another Tweet he noted on May 13: 'NBFCs play a significant role & will continue in reaching credit to deeper pockets and to all segments who normally do not get credit from banking system. Adequate liquidity to all NBFCs & More time to retail customers for repayment needed. One time loan restructuring will work.'

Umesh Revankar, MD and CEO, Shriram Transport Finance and director, FIDC said: "We welcome the stimulus announcement made by the Finance Minister. The package addresses the concerns of both NBFC and MSME sectors. Under the full and partial guarantee scheme, we expect boost to liquidity into the NBFC ecosystem which in turn would help MSMEs to resume their operations. All in all it is an excellent package and we hope to see the quick revival of the economy in the coming few quarters." ■

FIDC Meeting with Hon'ble Finance Minister on 29thMay, 2020 - Key Concerns of NBFCs

Hon'ble Finance Minster Smt. Nirmala Sitharaman chaired a meeting with key officers from Finance Industry Development Council (FIDC) via video conference on May 29. The FIDC is a representative body of Asset and Loan Financing of the NBFCs registered with the Reserve Bank of India

FIDC had the video-call with the Hon'ble Finance Minister Smt. Nirmala Sitharaman and the Secretaries at MOF DFS and DEA on 29th May 2020.

SPECIAL LIQUIDITY SCHEME: FIDC top brass in a video-call with Finance Minister and senior officers of Ministry of Finance on May 29 while thanking the "steps taken to support the MSMEs and to provide liquidity support to NBFCs to help them assist MSMEs to emerge from the after-effects of the Covid-19 related disruption." However, FIDC clearly indicated that Special Liquidity Scheme should be amended to cover tenure up to 3 years so as to serve the purpose of improving the liquidity situation of NBFCs as NBFCs lend for an average tenure of 3 years. Moreover, Special Liquidity Scheme should also cover term loans taken by NBFCs from banks and FIs; as also it should be for primary issuance of bonds or fresh term loans and not for secondary market purchase.

EXTENDED PARTIAL CREDIT GUARANTEE SCHEME: EPCG scheme may cover new term loans sanctioned by banks to small and midsized NBFCs (rated AA and below) up to 20% of loan amount till the entire loan is repaid. EPCG scheme in case of purchase of pools should be co-terminus with the tenure of the pool receivables and it should also have allocation of Rs. 10,000 crs of overall guarantee amount between purchase of pools 50% and balance 50% for term loans/bonds issuances, FIDC emphasized.

TLTRO 2.0: About TLTRO 2.0 which received lukewarm support from banks the FIDC suggested that the tenure of the term loans and bonds eligible under the PCG scheme should be up to 4 years. Banks should be persuaded to provide additional funds to their existing NBFC customers to the tune of 20% of existing limits under TLTRO 2.0 without any appraisal and collateral security. None of the above facilities should be used by banks to reduce their outstanding exposure on the NBFC customers and it should be over and above the current limits.

EMERGENCY CREDIT LINE GUARANTEE SCHEME TO FINANCE MSMES: About Coverage for NBFCs under Emergency Credit Line Guarantee Scheme to Finance MSMEs FIDC requested that unsecured loans should also be covered under the scheme and mainly for the bottom end of the MSME segment. Moreover the FIDC Team said that all individual borrowers who are at the bottom end of the MSME chain should also be covered under the scheme so that they can benefit as well and NBFCs which are the principal source of funding for them can provide it to their customers.

ONETIME RESTRUCTURING: NBFCs seek permission to grant onetime restructuring of loan repayment terms without any additional provisioning. In this regard it was also brought to the attention of Finance Minister that RBI circular dt 11thFebruary, 2020 does allow onetime restructuring for MSMEs registered with GST up to 31st December, 2020 without any downgrade but with 5% additional provisioning. NBFCs' request is to expand the scope to all loans (and not only MSMEs) and that too without any additional provisioning. FIDC said that this is already represented to RBI, and FIDC requested Finance Minister's intervention and support in this regard.

OTHER REPRESENTATIONS TO FINANCE MINISTER:

Corona virus, Lockdown need immediate relief for NBFCs: FIDC SOS TO FM

FIDC sending SOS to Finance Minister on March 23 and 26 said "Since NBFCs are financial intermediaries and our cash flows are directly linked to and dependent on repayment of EMIs by our customers. It may be expected that such prompt payment of EMIs will be significantly affected due to the extraordinary and unprecedented 21-day lockdown situation, with businesses taking anywhere between minimum three to six months to recover their positions and business to resume as usual. This will 'impact NBFCs' cash flows too significantly and they are likely to be forced to draw down their liquidity buffers to a significant extent'.

FIDC-IN A CRUSADER MODE

In order to help NBFCs as a sector to enable them to play their role and to ensure continued flow of credit to critical and under-served segments the following measures are needed, said FIDC:

- Allow moratorium on payment of EMIs for at least 4 months period by deferring till 30th June, 2020. This would ensure that unintended defaults do not affect credit track record and bureau scores of customers and allow them to borrow further
- Announce a moratorium on repayment/automatic roll-over of repayment of loans taken by NBFCs from banks as well as money markets for a period of 3-6 months. Further, there may be an instance wherein Term Loan from Banks to NBFCs may need to be rescheduled/restructured by allowing elongation of Loan Tenure, which may please be permitted.
- Assignment of priority sector status to all the loans given to NBFCs by banks for on-lending to the priority sectors (as defined for banks) without any monetary/interest cap or restrictions
- Repricing of loan and credit facilities given to the NBFCs at 1-year MCLR for a period of one year starting 1st April, 2020 to facilitate dissemination of cheaper credit to the informal segment
- Extension of PCG-DA scheme to cover the loans given by the NBFCs up to February, 2020 as against the existing cut off of 31st March, 2019.
- Ensure existing (including unutilized) credit lines to NBFCs from banks and FIs are not disturbed
- Ensure prevailing credit ratings are not downgraded simply due to the impact of the current lockdown

Corona Virus and its impact on the NBFC sector – Request for amendments to RBI announcements and a few consequent measures on March 30

[1] Make the moratorium/deferment and elongation of the repayment schedule as also the residual tenure mandatory for all term loans outstanding as on March 1, 2020 and also for the loans disbursed thereafter. (Since almost all sectors of the economy are affected by the situation with negligible number of exceptions). Most of our lending is to the retail and MSME sectors which are particularly vulnerable in this situation. This will avoid any fear or favour in extending such facility in the minds of the decision makers and will be uniformly applicable; [2] Allow NBFCs to extend the tenure of the loans given to such borrowers for a few months beyond the three months solely to permit borrowers to pay the deferred interest through easier installments instead of a lump sum at the end, which may be highly burdensome for them; [3] Banks must offer moratorium/deferment of interest (as the case may be) for all loans extended by them to NBFCs to the full extent. [4] The same facility should be extended to cover all money market instruments such as commercial paper and non-convertible debentures/bonds. [5] NBFCs are required to offer moratorium of EMIs of loans, whether they are on their books or sold through the process of securitisation or assignment of receivables. If the investor banks which hold the pass-through certificates do not provide automatic approval in this regard, it will cause a hardship for the customers of NBFCs. Notification may be issued in this regard. [6] Similar facility should be offered by money market participants such as mutual funds, insurance companies and others who hold commercial paper/bonds issued by NBFCs. Instructions to operationalise this may be issued by the appropriate authority such as IRDA/SEBI etc. [7] An advisory must be given to credit rating agencies by SEBI and RBI such that any deferment/moratorium given to an NBFC is not considered as a negative rating criterion.[8] Procedures of issuance of NCDs need to be simplified in the current scenario, where the company is required to use their letter head and digital signatures for confirmation of allotment of issuance, listing, filing of forms with ROC etc. Hence, we request for appropriate changes in the regulations to accept the email confirmation received from authorised signatories of the issuer / R&T Agent.

Issues arising out of COVID-19 Regulatory Package notification issued by the RBI on March 27, 2020 on April 4:

[1] Relief for overdue loan contracts; [2] Extension of tenure to recover the interest during moratorium period; [3] Lines of credit for NBFCs either directly from RBI or through banks and lifting the exposure cap as some of the banks have been citing exposure caps as a limiting factor; [4] Moratorium to apply to all the instruments like NCD/ PTC/ DA as otherwise it will result in downgrading of these instruments; [5] Restructuring of Loans.

Request to FM for changes to liquidity schemes for NBFCs as part of "AtmaNirbhar Bharat" package

Non-bank lenders have requested finance minister Nirmala Sitharaman to rework the contours of the special liquidity schemes in the Rs. 20 trillion economic package.

In a letter sent to the finance minister on May 20, FIDC, the representative body of NBFCs, sought changes to the three liquidity schemes— Rs.30,000 crore liquidity support scheme, Rs. 45,000 crore partial credit guarantee (PCG) scheme and Rs. 3 trillion guaranteed loans for micro, small and medium enterprises (MSMEs).

NBFCs, which were expecting liquidity support for three years, were disappointed by the three-month duration of the Rs. 30,000 crore special liquidity scheme. "The scheme for liquidity support of Rs. 30,000 crore is for a period of only three months and as such cannot be utilized for any on-lending purposes to MSMEs. It can only provide relief to existing holders of short-term NBFC debt instruments to sell off their holding and may in fact result in no additional cash flow to NBFCs. It may not have the desired effect of encouraging NBFCs to lend to the MSME sector. Any NBFC availing of funds under this scheme may in fact, end up in disturbing its asset-liability matching," the FIDC letter said. The industry has called for extending the tenure of the scheme to three years.

FIDC has also requested the government to extend the tenure of partial credit guarantee scheme (PCGS) 2.0 worth Rs.45, 000 crore to three years from the current tenure of one year.

The NBFCs have also requested the government to make changes in Rs. 3-lakhcrore credit line for micro, small and medium enterprises (MSMEs)."Request allocation of 20% out of Rs.3 lakh crore for utilization by NBFCs," FIDC wrote to F M. This would ensure that the weaker profiles of MSMEs which are mainly catered by NBFCs are able to get additional funds through this initiative, FIDC further said. [Live Mint & Financial Express, 22 May]

REPRESENTATION TO SECRETAY, HOME MINISTRY on April 10

Request for permitting the partial functioning of NBFCs amidst the Lockdown ordered in connection with COVID-19 pandemic as

Government has exempted banks from the closure of offices. Similarly, Insurance Companies, Stock Markets and its operators, Mutual Funds are treated at par with Banks

Similarly, request for this purpose was made to Union Finance Minister and Reserve Bank of India for permitting partial functioning of NBFCs.

REPRESENTATION TO SECRETAY, MINISTRY OF CORPORATE AFFAIRS on 21 April

Special Measures under Companies Act, 2013 (CA-2013) in view of COVID-19

Note on provisioning requirements under RBI circular dt 27th March & 17th April, 2020 and the ICAI advisory [With a copies to President ICAI and CGM, RBI] was submitted by FIDC to Ministry of Corporate Affairs on May 14 listing out the key issues of concerns for NBFCs in view of provisions of IndAS. FIDC said "that NBFCs shall be able to adopt the above RBI notification only after a specific notification from the ICAI or the MCA that even in the IndAS framework, this RBI notification is superior as it is a regulatory override and should be adhered to for treatment in the financial statements of NBFCs. We request the MCA/ICAI to issue such a notification."

Banks and NBFCs subscribe to Security Receipts (SR) of the trusts that hold the transferred distressed assets. These SRs are accounted for as investments under the Indian GAAP. FIDC suggested to MCA to allow banks (whenever they transition to Ind AS) and NBFCs to recognize Investment in SRs and derecognize the financial asset (loans), if control has been transferred to an ARC. As we mentioned, this does not affect true and fair view. FIDC therefore requested "the MCA (and the ICAI) to suitably amend the norms under IndAS in respect of the aforesaid stressed loans to (a) enable these to be derecognised as assets by the transferor NBFC (in standalone and consolidated financial statements) and, (b) account for investments in SRs on a fair value basis as "Investments" (in standalone and consolidated financial statements).

The lockdown prescribed due to Covid-19 by various authorities have wide-ranging effects on all aspects of business and commerce. Various transactions, including acquisition, divesture, security creation/perfection/enforcement, registration, etc., which in all substantive manners may have been consummated, would be awaiting closure purely due to administrative reasons. The lockdown would result in incorrect reporting of transactions that are pending only administrative filings/approvals or otherwise pending for administrative reasons. FIDC therefore requested that "The Institute of Chartered Accountants of India along with suitable authorities/departments from Ministry of Corporate Affairs and Ministry of Law & Justice should develop a suitable guide to assist corporates, banks, chartered accountants etc., on matters which can be considered as adjusting post-balance sheet events (even without formal closures or formal closures post-March 31, 2020)."

More over FIDC also "Requested for extending the timeline to comply with the requirement specified in General Circular No. 11 /2020 of March 24, 2020 to invest or deposit at least 15% of amount of debentures maturing in specified methods of investments or deposits to September 30, 2020 from current requirement of June 30, 2020."

REPRESENTATIONS TO RBI

NBFCs seek moratorium on EMIs for at least 3 months

FIDC has requested the RBI and the Government to announce a moratorium on EMI (equated monthly installment) payment for at least three months; allow restructuring of accounts that may become delinquent; and extend the period for recognition of non-performing assets (NPAs) from the current three months to six months past the due date.

"NBFCs are at the forefront of financing many of the affected sectors, notably small road transport operators, taxi aggregators, infrastructure contractors, MSMEs, traders, etc., and the current situation is likely to result in delayed payment of EMIs even by customers with a hitherto excellent and unblemished repayment history," FIDC said. This may affect their credit scores for no fault of theirs, seriously impairing their ability to raise finance in the future for business, it added.

Rising stress levels: FIDC said the pandemic may impact supply chains, hospitality and infrastructure contracting segments as well deeply. In fact, early market reports suggest increase in stress levels in the economy, it added. Specifically, FIDC wants the RBI and the Government to announce a moratorium on payment of EMIs for at least three months by deferring at least three EMIs. This would ensure that unintended defaults do not affect credit track record and bureau scores of customers.

FIDC wants one-time restructuring of all regular accounts that are today not in default, but those that may become delinquent in the future without the extant requirement of 5 per cent provisioning in the NBFCs' books.

FIDC also wants the period for recognition of NPAs extended from the current three months to six months past due in cases that are non-delinquent as on March 1, 2020. Any provision made on loans that are already NPA should not be allowed to be written back to ensure maintenance of the sanctity of recognition of prior NPAs, it added. [Business Line, March 23]

NBFCs seek RBI clarification on Covid-19 package provisioning norms

RBI's Covid-19 package has offered the badly-needed relief to NBFCs, but the sector has sought the central bank's clarification on the provisioning norms and lending from banks. RBI had issued a notification on the days past due (DPD) freeze arising out of the moratorium on payments due from borrowers. NBFCs have sought clarification on the norms for provisioning in the Covid-19 package to avoid any misunderstanding from the point of asset classification and provisioning, especially from the point of view of NBFCs.

The term default has not been defined in the circular and is open to multiple interpretations. Going by the intent of the RBI circular, it would mean accounts that would have turned NPA during the moratorium period, but for the DPD standstill benefit provided by the circular.

However, the word default can be construed to mean even a single day default, point out NBFCs. Those who borrow from NBFCs generally do not have fixed-day income (such as salaried employees), and hence, they tend to delay paying their monthly EMIs during the course of the month. Such borrowers will also now tend to be classified as default customers and necessitate the provisioning of 10 per cent on their dues.

This will be an onerous liability on the NBFCs and may be strenuous from their profitability perspective. "While one can understand the logic behind the 10 per cent provisioning, I feel that assets in the 1-30 day bucket should not attract the extra 10 per cent provisioning since these assets constitute the core portfolio of most retail lenders. Assets in the 31-90 day bucket alone should be subjected to the additional provisioning. Second, being a special, one-time provisioning, this should not be a charge to the profit and loss account," pointed out a top official with a leading NBFC.

It must be clarified if the term default should read as loans that are more than 30 days overdue. Hence, NBFCs have requested the RBI to clarify this explicitly to avoid confusion.

NBFCs also await further clarification on the applicability and impact of the Covid-19 regulatory package's asset classification and provisioning for them.

A senior official with a leading private lender said NBFCs are required to carry impairment provision as per Expected Credit Loss Model approved by their boards. However, if such value is less than the provisions required to be made under IRAC norms, an impairment reserve is to be created that can be utilised only with the prior approval of the RBI.

In the context of additional provision mandated by the RBI in the same circular, the sector has requested that the impairment reserve, if created, to the extent it is attributable to the additional provision requirement under new Covid-19 provisioning norms, be allowed to be utilised as specified in the circular without any prior approval from the RBI. [G Balachandar, Business Line, April 21]

Moratorium be applied by SEBI to instruments viz., NCDs, PTCs and other instruments

While appreciating slew of proactive measures taken by SEBI to help mitigate the negative economic fallouts of the Corona Virus pandemic FIDC on April 4 requested SEBI chairman that corresponding moratorium be also applied to all such instruments viz., NCDs, PTCs and other instruments of similar nature as the present relief package announced by the RBI does not cover debt raised through capital market instruments such as NCDs and PTCs. This will help the industry to avoid any unnecessary rating downgrade and liquidity squeeze, said Mahesh Thakkar, Director General, FIDC.

Shri Mahesh Thakkar Director General, FIDC with RBI Governor Shri Shaktikanta Das

NBFCs urge RBI to allow draw-down from reserves for provisioning

NBFCs on May 15 requested the RBI to allow them to draw-down from their reserves for making additional provision for expected losses due to covid-19 pandemic. "We urge upon RBI to consider, as a one-time measure, to allow NBFCs to draw-down from their Reserves and adjust towards additional Expected Credit Losses (ECL) provision requirement, in excess of provision calculated as per normal Probability of Default (PD) and Loss Given Default (LGD)," FIDC, a representative body of assets and loan financing NBFCs, said in a letter to RBI Governor Shaktikanta Das.

NBFCs are required to comply with Indian Accounting Standards (IndAS). The Institute of Chartered Accountants of India (ICAI) has advised NBFCs to measure the impact of covid-19 on the portfolio quality in the form of PD and LGD with adverse impact on the business of the borrowers or debtors due to covid-19 on one hand and prudential regulatory actions to sustain the economy such as loan repayment holidays and reduction in interest rates.

As per IndAs norms, that are applicable in respect of ECL measurement and disclosure in the financial statements, the NBFCs are required to make additional provisioning in terms of ICAI advisory and it will surely make a severe dent on the profitability and net worth of the respective NBFCs particularly considering the impact of covid-19 on the vulnerable sections of society, FIDC said. A one-time draw-down from reserves would enable the NBFCs to shore-up their balance sheet strength by reporting a more fortified ECL provision cover against their likely increase in delinquent loans and remain eligible to access equity/debt capital when situation normalizes, the letter read.

The sector has asked the RBI to consider permitting any provisions made as per ECL, in respect of the standard assets, to be reckoned with for the purpose of tier II capital. The industry also requested the RBI to increase the ceiling for considering standard asset provision for calculation of capital adequacy to 2.5 per cent from 1.25 per cent. Mahesh Thakkar, director general, FIDC requested the RBI Governor to allow NBFCs a one-time window for restructuring of all loans. [Live Mint/PTI, 15 May]

FIDC In Action

NBFCs request RBI for further leeway on accessing moratorium

The NBFC industry has requested the RBI for some leeway in the terms of the loan moratorium announced last month. The industry is seeking that the cut-off date for non-banks to access the moratorium be extended beyond February 29, and that securitised loan pools also be made eligible for it. Ramesh Iyer, vice chairman and MD, Mahindra & Mahindra Financial Services (MMFS), told analysts over a conference call on Monday that the industry has asked the banking regulator to issue some sort of directions to banks to support all NBFCs and not leave mid-sized and small firms high and dry. "In the moratorium dispensation, there has been talk around how the balances for February do not qualify for the moratorium. Most of us who are in the transportation business have been representing to say that March is the month when the government bills get settled, when transporter settlements happen and therefore if they could not transact it is unreasonable to not provide them with that support," Iyer said. He added that the authorities have responded well to this input and the industry expects directions to be issued around it. Iyer is also the chairman of the FIDC, a representative body of lending NBFCs.

The NBFCs have further requested that loan pools that have been sold to banks through securitisation transactions must also qualify for the moratorium, subject to investor approval. As for retail borrowers who are opting for the loan moratorium, Iyer said the company has observed a clear distinction between two sets of borrowers –one comprised of small-time professionals who have the means to repay their loans and the other comprised of borrowers who are suffering a more severe loss of income and therefore need the three-month breather. There are also parts of the country where the impact is relatively lesser than others and the borrowers there are seeking a one-month deferment against a three month one." So, we see two kinds of disparity–one is product and customer segment based, and the other is geographical," Iyer said, adding that MMFS is carrying out a district-wise survey of accounts to ascertain where the negative impact of the lockdown could be higher. [FE BUREAU, April 6]

Relief in terms of One-Time Restructuring and Asset Classification and Provisioning under IndAS

FIDC in view of the extensions in lock down given twice till 18th May and very bleak scenario for full revival of the economy which will take place over next few quarters, pleaded to the Reserve Bank of India on May 15 for following crucial reliefs to manage the circumstances arising out of Covid-19.

1. Allow a one-time window for restructuring of all the Loans. This facility is currently available for loans to MSMEs (as per RBI Circular dt. 11th February 2020) and could now be considered for all other borrowers as well, given the environment. This restructuring may kindly be allowed without the need for a 5% provisioning as mandated by the current scheme.

2. Allow one-time draw-down from Statutory Reserves and Other Reserves with the approval of the Board of Directors of the NBFCs to be adjusted to enhance ECL provision, in excess of provision calculated as per normal Probability of Default (PD) and Loss given Default (LGD).

3. Permit any provisions made as per ECL, in respect of the standard assets to be reckoned with for the purpose of Tier II capital.

4. Increase the ceiling of 1.25% for considering standard asset provision for calculation of Capital Adequacy to 2.50% for NBFCs following provisioning norms under IndAS. This shall be in tune with the stricter provisioning norms under IndAS.

Mahesh Thakkar, director general, FIDC requested the RBI Governor to consider these measures to help NBFCs manage the current situation and to enable them to play a due role in the economy rebuilding efforts.

FDI in Non-bank Lenders Needs to be explored for Greater Support to MSMEs: Nitin Gadkari

Union minister Nitin Gadkari on June 4 said foreign direct investment can be explored in the NBFC sector, which in return will prove to be a huge support to micro, small and medium enterprises (MSMEs). The minister opined that strengthening of non-banking lenders or NBFCs, state cooperative banks, district cooperative banks, credit societies, etc is required to extend support to MSMEs during this challenging time.

Further, foreign direct investment (FDI) can be explored in NBFCs to strengthen them, which will lead towards greater support to MSMEs; an official statement said quoting the minister. He said a credit rating mechanism can be devised for NBFCs also to support them adding that a possibility needs to be explored to get some foreign investment in the NBFC space.

He said in a situation where an NBFC has a good credit rating, it can be a good thing if such a company can also attract foreign investment but a criteria needs to be fixed for this purpose.

The minister, who also holds road transport portfolio, held meetings via video conferencing with the representatives of Council of Leather Export, FICCI-'NBFC Program' and IMC Chamber of Commerce and Industry on impact of COVID-19 on MSMEs. [News 18 Business, June 4]

SUPPORT FOR NBFC SECTOR FOR ON-LENDING TO MSMEs: PLEA TO NITIN GADKARI

FIDC in view of need for financing the MSME sector and helping them to revive from the current lockdown situation due to Covid-19 which would require 2-4 months' additional working capital amounting to several thousand crore in order to resume normal manufacturing and other activities from banks and NBFCs sought support and help from Hon'ble Minister for MSME Nitin Gadkari to help overcome funding constraints of NBFC sector. FIDC in its representation on May 8 made following suggestions: [1] Establishing of Refinance Mechanism to reduce the over dependence of NBFCs on banks by making SIDBI as the nodal agency to refinance NBFCs for on-lending to MSMEs. [2] Providing credit guarantee for the funding support by the banks. Such guarantee should be for both term loans and asset pool purchase and should be valid for 4 years or the full tenure, whichever is less. [3] On-lending for Priority Sector Assets permitted by RBI till Dec. 2020 be made permanent and the current limit of 5% of PSL be enhanced to 10%. [4] Credit Guarantee Scheme for MSMEs be liberalised permitting at least 60-70% of the claim amount to be released on account on a quarterly or semi-annual basis, reimbursement of loss to at least 90% and removal of overall cap on the guarantee amount at 3 times. [5] SIDBI may consider relaxing the external rating norms and permit small and medium NBFCs with a good track record and with experienced promoters to avail of refinance. [6] Extend the Interest Subsidy Scheme for MSMEs to another 2 years and also increase the subsidy element from 2 % to 3% of the loans taken by the MSME.

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Needed massive stimulus after Covid-19 shockwave

[Courtesy: ET Prime]

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