



Finance Industry Development Council

(A Self Regulatory Organisation for NBFCs in India)

CIN: U91990MH2004NPL146931

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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Feedback on RBI Draft Circular - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Amendment Directions, 2025 – DRAFT

Reference:

1. Draft Circular issue on October 25, 2025: RBI/2025-26/...;
DOR.CRE.REC..../03.10.001/2025-26 (Date to be inserted when final circular is issued)
2. Master Direction Reference: Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

EXECUTIVE SUMMARY FOLLOWED BY DETAILED FEEDBACK

We appreciate the Reserve Bank of India's effort to strengthen the risk-sensitivity of capital requirements for infrastructure exposures through the draft Amendment Directions under the Scale Based Regulation framework.

As the RBI-recognized Self-Regulatory Organization (SRO) for the NBFC sector, FIDC fully supports the objective of ensuring prudent credit risk management across systemically important NBFCs, including IFCs and IDFs.

We would like to respectfully submit that certain provisions in the draft may unintentionally reduce the ability of the NBFC-IFCs, NBFC-IDFs and NBFC-ICCs (*who are lenders to infrastructure projects*) to participate meaningfully in long-term infrastructure financing. This may also create regulatory divergence among the different type of lenders financing identical / similar projects.

Our key concerns for your consideration are as below:

1. Narrow "high-quality" definition excludes creditworthy private-sector infrastructure projects despite investment-grade ratings



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2. Repayment-linked risk weight criteria misalign with infrastructure economics, penalizing capital deployed for long gestation projects
3. No recognition of structural credit enhancements that reduce risk
4. Absence of rating-based risk weights creates capital disparity
5. Regulatory divergence with banks and proposed AIFI framework
6. Absence of transition provisions for existing portfolios
7. Unclear treatment of refinancing and portfolio transfers

ISSUE 1: DEFINITION OF “HIGH-QUALITY INFRASTRUCTURE PROJECTS”

Issue / Concern:

The current definition restricts eligibility primarily to projects whose revenue depends on one main counterparty which must be a Central Government or public sector entity. This excludes several large, creditworthy, and strategically important infrastructure classes that demonstrate stable cash flows, strong contractual frameworks, and proven operational track records—often supported by highly rated private sponsors such as:

- ◆ Airports,
- ◆ Major ports
- ◆ Toll-based and annuity-based road projects (BoT/ToT/HAM),
- ◆ Multimodal logistics assets, and
- ◆ urban infrastructure assets.

Applying higher risk weights to these exposures may significantly narrow the lending capacity of NBFCs who are lenders to infrastructure projects despite the sectors’ stability and strategic relevance.

Our submission:

Broaden the definition of “high-quality infrastructure projects” to include:

- Operational assets with stable, predictable cash flows (renewables, transmission, annuity roads, regulated assets).



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- Assets backed by sovereign, quasi-sovereign, or highly rated private counterparties.
- Projects with strong sponsors, robust covenants, and conservative leverage.
- Projects rated in the upper investment grade.
- Infrastructure assets across sectors such as airports, ports, logistics, urban infra, and pipelines that meet operational and financial stability thresholds.

Rationale for Submission:

A wider definition reflects the **true credit risk** of mature infrastructure sectors and avoids excluding robust, well-performing assets. Anchoring eligibility on credit quality, operational stability, and structural safeguards ensures that only genuinely strong projects receive lower risk weights while maintaining regulatory prudence.

ISSUE 2: REPAYMENT-LINKED RISK WEIGHT ELIGIBILITY

Issue / Concern:

The proposed draft links eligibility for lower risk weights to repayment of $\geq 5\%$ or $\geq 10\%$ of the sanctioned amount. Infrastructure projects typically follow long gestation periods and back-ended amortisation structures; early-stage repayment is not a credible indicator of credit improvement. This may unintentionally encourage accelerated repayment structures, which could undermine project viability and distort optimal cash-flow based structuring.

Our Submission:

Replace repayment-percentage thresholds with credit and structural indicators such as:

- ♦ investment-grade external ratings,
- ♦ DSCR stability,
- ♦ escrow discipline,
- ♦ DSRA adequacy,
- ♦ proven performance post-COD, and
- ♦ adherence to concession/regulatory frameworks.



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Rationale for Submission:

Repayment timing does not reliably signal credit quality for infrastructure assets. Using ratings, operational metrics, and structural safeguards provides a **more risk-sensitive and economically aligned framework**, while eliminating sub-optimal cash-flow structuring.

ISSUE 3: NON-RECOGNITION OF CREDIT ENHANCEMENTS & STRUCTURAL PROTECTIONS

Issue / Concern:

The draft framework does not recognize enforceable credit enhancements or structural protections such as sovereign/DFI guarantees, DSRA, escrow arrangements or completion guarantees. These mechanisms materially mitigate credit risk, and their non-recognition results in risk weights that do not fully reflect the actual economic risk of enhanced exposures.

Our Submission:

Allow for appropriate risk-weight adjustments where exposures are supported by credible, enforceable credit enhancements or strong structural safeguards.

Rationale for Submission:

Recognizing credit risk mitigation instruments—consistent with Basel treatment—encourages better structuring discipline, supports blended finance models promoted by Government and multilaterals, and aligns capital requirements with the true risk of the exposure. This approach promotes prudent lending while enabling wider participation in infrastructure financing with enhanced safety mechanisms.



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ISSUE 4: ABSENCE OF RATING-BASED RISK WEIGHTS

Issue / Concern:

The draft directions retain the blanket **100% risk weight** (and 50% for specified PPP assets) for infrastructure exposures, even when projects are investment grade (AAA/AA/A/BBB). This results in materially higher capital requirements versus banks and the proposed AIFI framework, despite NBFCs operating with a higher minimum CRAR and specialized infrastructure lending mandates further resulting in competitive distortions in consortium lending, limited ability to price credit competitively, and reduced incentive for maintaining strong credit quality.

This asymmetry creates challenges in consortium lending arrangements where banks can apply lower risk weights (20-50% for AAA/AA rated projects) while NBFCs must apply 100% risk weight for the identical project exposure, leading to pricing inefficiencies and reduced NBFC participation in infrastructure finance consortiums

Our Submission:

Introduce a **rating-based risk weight structure** for NBFC infrastructure exposures, aligned with the approach applicable to banks and proposed for AIFIs, thus addressing the issue of asymmetry in capital treatment for identical assets.

Rationale for Submission:

A differentiated, rating-sensitive framework ensures that capital requirements reflect **underlying credit risk** rather than only the institutional category of the lender. This strengthens prudential discipline by incentivizing higher underwriting standards, ensuring that improvements (or deterioration) in credit quality translate into capital impact. It also maintains competitive neutrality among lenders financing the same project and supports consistent treatment in consortium and takeout financing structures.



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A rating-linked framework (e.g., 20–100% RW across AAA to sub-investment grade) would remain fully aligned with Basel principles and preserve the higher CRAR already applicable to NBFCs, while avoiding undue capital strain for creditworthy exposures.

ISSUE 5: REGULATORY DIVERGENCE WITH BANKS, IDFs & PROPOSED AIFIs

Issue / Concern:

Risk weights for infrastructure exposures differ significantly across banks, NBFCs, IDFs, and the proposed AIFI framework. Identical underlying project risk attracts materially different capital treatment depending on the lender category, creating competitive asymmetry and inconsistencies in consortium and takeout financing structures.

Our Submission:

We request a broad harmonization of risk-weight principles across institutions financing the same project, with differentiation achieved through minimum capital requirements, exposure norms, and governance standards rather than divergent risk weights.

Rationale for Submission:

A harmonized approach strengthens the integrity of prudential regulation by ensuring that **identical risk receives identical treatment**, regardless of lender type. NBFCs already operate under a higher minimum CRAR, which sufficiently captures institutional risk. Aligning risk-weight principles prevents regulatory arbitrage, promotes consistent pricing, and supports the development of a stable market for long-term infrastructure debt.



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ISSUE 6: ABSENCE OF TRANSITION PROVISIONS

Issue / Concern:

The draft framework provides no transition arrangements for existing portfolios, committed sanctions, or multi-tranche facilities. Immediate applicability of revised risk weights may create sudden capital pressure, disrupt consortium agreements, and adversely impact projects already in advanced stages of financial closure.

Our Submission:

Introduce a transition framework that includes grandfathering for existing exposures and a phased implementation period for new norms.

Rationale for Submission:

Transition provisions are standard regulatory practice for material capital changes. Phased implementation allows time for capital planning, avoids abrupt disruptions to ongoing projects, and ensures stable credit flow to the infrastructure sector. Grandfathering protects existing contractual arrangements while enabling gradual alignment with revised prudential norms.

ISSUE 7: UNCLEAR TREATMENT OF REFINANCING, PORTFOLIO TRANSFERS & TAKEOUT FINANCING

Issue / Concern:

The draft directions do not specify how repayment thresholds, risk weights, or historical track records should be applied in refinancing or takeout transactions, or in portfolio transfers between lenders—common features of infrastructure financing. This uncertainty affects loan recycling and secondary market development.

Our Submission:



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We request for explicit guidance that refinancing or takeout transactions inherit the original project parameters (sanction amount, repayment status, asset quality, COD), subject to due diligence.

Rationale for Submission:

Clarity in treatment aligns the prudential framework with long-established infrastructure financing practices, supports the recycling of capital through takeout structures, and encourages the development of a secondary market for infrastructure debt. This strengthens financial stability while ensuring consistency in capital treatment through the project lifecycle.

CONCLUSION:

FIDC reiterates its support for RBI's intent to create a more risk-sensitive and robust capital framework for infrastructure financing. Our suggestions aim to strengthen risk alignment, ensure regulatory consistency across lender categories, and maintain the flow of long-tenor capital necessary for India's infrastructure development.

We remain fully committed to fostering responsible lending practices as the designated SRO for the NBFC sector and request an opportunity for further engagement to share any other data or information to assist RBI in finalizing the Amendment Directions.

Thanking you.

Yours Sincerely,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

PRIYA RANJIT

CHIEF OPERATING & NODAL OFFICER

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