FIDC

Finance Industry Development Council

(A Self Regulatory Organisation for NBFCs in India)

CIN: U91990MH2004NPL146931

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December 08, 2025

To,
The Chief General Manager
Department of Regulation
Reserve Bank of India
Central Office, Shahid Bhagat Singh Marg
Fort, Mumbai - 400 001

Respected Madam/Sir,

Subject: Representation on Loan To Value (LTV) Parity Between Banks and NBFCs for Loan Against Securities (LAS)

Reference:

1. Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 (RBI/DoR/2023-24/105), Paragraph 36 *(herein after referred to as "SBR Master Directions")*
2. Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025 dated October 24, 2025 (RBI/2025-26/DOR.CRE.REC./13.07.005/2025-26) *(hereinafter referred to as "Draft Commercial Bank CME Directions")*

BACKGROUND & EXECUTIVE SUMMARY

The NBFC sector has demonstrated robust growth, with total AUM standing at approximately ₹47 trillion as of March 2024 and projected growth of 13-15% CAGR through FY2027 *(Source: ICRA NBFC Sector Report, August 2024)*.

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As per CRISIL NBFC Sector Report (July 2025), the LAS market size for FY25 stands at ₹280 billion and ₹168 billion of this portfolio falls under the ₹2-10 million loan ticket size category representing the retail and small business segment predominantly served by NBFCs. The ticket size distribution of the loan book is as follows:

Ticket Bracket (₹)	FY25 (₹ Bn)
< ₹0.2 Million	12.5 (4.5%)
₹0.2 Million – ₹0.5 Million	16.4 (5.9%)
₹0.5 Million – ₹1.0 Million	21.0 (7.5%)
₹1.0 Million – ₹1.5 Million	12.1 (4.3%)
> ₹1.5 Million	217.6 (77.8%)

NBFCs have been primary credit intermediaries in the Lending Against Securities (LAS) segment with specialized expertise developed over decades playing a critical role in providing liquidity solutions to retail and SME borrowers. Asset quality metrics in NBFC LAS portfolios have remained stable despite market volatility, demonstrating prudent risk management practices.

The Draft Commercial Banks CME Directions, proposes to allow Banks to have higher Loan-to-Value (LTV) ratios when lending against securities compared to NBFCs which will create an uneven playing field, impacting the competitiveness and growth of NBFCs.

KEY REQUESTS:

With the Draft Commercial Bank CME Directions proposed to be effective from April 1, 2026, parity of LTV ratios between Banks and NBFCs is essential to prevent market disruption and ensure seamless credit intermediation. Our requests are as follows:

1. For listed equity shares, change the LTV ceiling to 60% from current 50%
2. For Equity mutual funds, ETFs, REITs, InvITs change the LTV ceiling to 75% from current 50%

ISSUE-WISE SUBMISSIONS

ISSUE 1: DIFFERENT LTV RATIOS FOR EQUITY SHARES

Issue/Concern:

The Draft CME Directions permit **Banks** to extend loans at **60% LTV** against listed equity shares, while **NBFCs** remain **restricted to 50% LTV** as per Paragraph 36 of the SBR - Master Direction. This LTV differentiation creates a structural disadvantage for NBFCs such as lower sanction and disbursal amounts for borrowers, more frequent margin call triggers and top-up requirements.

Submission:

We request that Paragraph 36 of the SBR-Master Direction be amended to permit NBFCs to extend LAS at 60% LTV for listed equity shares, aligned with the proposed banking framework.

Rationale for Submission:

- NBFCs serve the same customer segments with similar risk profiles as Banks
- NBFCs asset quality parameters present a healthy picture which is a result of their prudent risk management, understanding of the ground realities and prevailing market dynamics
- NBFCs, like Banks operate under comprehensive Board-approved policies and risk management frameworks as per RBI governance requirements.

- LTV ratios are a function of inherent asset risk; since eligible securities for LAS are identical for banks and NBFCs, LTV ceilings should also be aligned
- The current 50% LTV framework has been operational since 2014 with strong compliance
- Both banks and NBFCs are subject to continuous LTV monitoring requirements (7-day breach rectification) and Quarterly stock exchange reporting on pledged securities ensuring transparency and market oversight
- Prudential norms for NBFCs on asset classification and provisioning have been harmonized with Banks; differential LTV ceilings are inconsistent with this regulatory approach
- Regulatory parity promotes efficient credit allocation, healthy competition, and customer choice

ISSUE 2: DIFFERENCE IN LTV RATIOS FOR EQUITY MUTUAL FUNDS, REITs, InvITs

Issue/Concern:

The Draft Commercial Bank CME Directions permit banks to extend loans at 75% LTV against equity mutual funds, ETFs, REITs, and InvITs, while NBFCs are allowed a uniform 50% LTV ceiling.

Submission:

We request that Paragraph 36 of the SBR Master Direction be amended to introduce LTV ratios of 75% for equity mutual funds (excluding debt mutual funds), ETFs, REITs, and InvITs.

Rationale for Submission:

- Equity mutual funds, REITs, and InvITs offer greater diversification and lower concentration risk

- Differentiated LTV ratios reflect risk-based regulation principles aligned with SBR framework
- Banks are permitted 75% LTV for these instruments under Draft Commercial Banks CME Directions, while NBFCs remain at 50%
- NBFCs possess sophisticated collateral valuation systems and daily mark-to-market capabilities for diversified securities.
- Both banks and NBFCs face identical 7-day breach rectification requirements, ensuring equivalent risk oversight
- Risk in lending against Mutual Funds is inherently mitigated through professional fund management, diversification requirements under SEBI regulations, and daily NAV-based valuations

CONCLUSION

The proposed Draft Commercial Bank CME regulations create the following disparities between Banks and NBFCs:

Parameter	Banks (Proposed)	NBFCs (Current)	NBFC Impact
LTV - Listed Equity Shares	60%	50%	-16.67%
LTV - Equity MFs/REITs/InvITs	75%	50%	-33.33%

FIDC respectfully submits that regulatory parity between banks and NBFCs in the LAS segment is essential for ensuring competitive neutrality, promoting efficient credit allocation, supporting NBFCs' complementary role as credit intermediaries, maintaining market stability through a diverse lender base, and encouraging customer-centric product development.

NBFCs have demonstrated prudent risk management in this segment and are well-positioned to operate responsibly under harmonized LTV ratios with appropriate safeguards already mandated under existing regulations.

FIDC requests the Reserve Bank to consider this representation favorably and remains committed to fostering responsible lending practices as the designated SRO for the NBFC sector.

Thanking you.

Yours Sincerely,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL
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