Source : www.thehindu.com Date : 2021-01-23

RBI MOOTS SCALE-BASED TIGHTER REGULATORY FRAMEWORK FOR NBFCS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Reserve Bank of India (RBI) has suggested a tougher regulatory framework for the non-banking finance companies' (NBFC) sector to prevent recurrence of any systemic risk to the country's financial system.

The banking regulator on Friday released a discussion paper on the revised regulatory framework which is formulated on a scale-based approach, and sought comments within a month.

The regulatory and supervisory framework of NBFCs will be based on a four-layered structure — the base layer (NBFC-BL), middle layer (NBFC-ML), upper layer (NBFC-UL) and the top layer.

If the framework is visualised as a pyramid, the bottom of the pyramid, where least regulatory intervention is warranted, can consist of NBFCs currently classified as non-systemically important NBFCs (NBFC-ND), NBFCP2P lending platforms, NBFCAA, NOFHC and Type I NBFCs.

Moving up, the next layer may comprise NBFCs currently classified as systemically important NBFCs (NBFC-ND-SI), deposit-taking NBFCs (NBFC-D), HFCs, IFCs, IDFs, SPDs and CICs.

"The regulatory regime for this layer shall be stricter compared to the base layer. Adverse regulatory arbitrage vis-à-vis banks can be addressed for NBFCs falling in this layer in order to reduce systemic risk spill-overs, where required," the RBI said in the discussion paper. The next layer may consist of NBFCs identified as 'systemically significant'. This layer will be populated by NBFCs having a large potential of systemic spill-over of risks and the ability to impact financial stability.

"The extant regulatory framework for NBFC-NDs will now be applicable to base layer NBFCs, while the extant regulatory framework applicable for NBFC-NDSI will be applicable to middle layer NBFCs. NBFCs residing in the upper layer will constitute a new category," the paper said.

The revisions applicable to lower layers of NBFCs will automatically be applicable to NBFCs in the higher layers, unless there is a conflict or otherwise stated, the paper added.

The current threshold for systemic importance, which is Rs. 500 crore now, is proposed to be revised to Rs. 1,000 crore.

As per the proposals, the extant NPA classification norm of 180 days will be reduced to 90 days. "The regulatory framework for NBFCs needs to be reoriented to keep pace with changing realities in the financial sector," the RBI said.

END