RBI ANNOUNCES SCALE-BASED REGULATORY FRAMEWORK FOR NBFCS

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

The Reserve Bank of India (RBI) has introduced a revised scale-based regulatory framework for non-banking financial companies (NBFCs), which will be effective from 1 October, 2022.

The scale-based framework encompasses different facets of regulation of NBFCs covering capital requirements, governance standards, prudential regulation, and others.

The regulatory structure for NBFCs will comprise of four layers based on their size, activity, and perceived riskiness.

NBFCs in the lowest layer will be known as NBFC - Base Layer (NBFC-BL), while those in the middle layer and upper layer will be known as NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) respectively.

The top ten eligible NBFCs in terms of their asset size will always reside in the upper layer, irrespective of any other factor.

Under the new framework, the RBI has tweaked the non-performing asset (NPA) classification to more than 90 days for all categories of NBFCs.

When it comes to the experience of the Board, considering the need for professional experience in managing the affairs of NBFCs, at least one of the directors must have relevant experience of having worked in a bank/ NBFC.

Further, there will also be a ceiling of 1 crore per borrower for financing subscription to Initial Public Offer (IPO). NBFCs can fix more conservative limits, the Central bank said in a statement.

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