Source : www.livemint.com Date : 2021-10-24

RBI TIGHTENS RULES FOR NBFCS FUNDING IPOS

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

The Reserve Bank of India on Friday announced a limit on non-bank lenders financing subscriptions to initial share sales to stem the flow of large amounts of borrowed capital by high net worth individuals to such offerings.

“There shall be a ceiling of 1 crore per borrower for financing subscription to initial public offer (IPO). NBFCs can fix more conservative limits," RBI said in its revised regulatory framework for non-banking financial companies (NBFCs). The new rule will be effective 1 April.

The move to impose a limit on IPO funding follows surplus liquidity in the system being used to fund large subscriptions from high net worth individuals in recent public offerings. While the extent of IPO financing by NBFCs could not be ascertained immediately, the central bank had pointed to increased commercial paper issuances in its October policy.

“Riding on the surplus liquidity conditions, commercial paper issuances increased substantially to 10.1 trillion during H1:2021-22 from 7.9 trillion during the corresponding period of 2020-21," RBI said. The share of NBFCs in total CP issuances increased to 43.2% in the fiscal first half from 21.9% a year earlier.

Separately, the central bank also announced its new scale-based regulation for NBFCs to prevent any potential collapse, like that of Infrastructure Leasing and Financial Services (IL&FS).

The final guidelines follow a discussion paper introduced by the regulator in January.

RBI has now classified NBFCs into four categories, depending on their systemic importance and potential risk to the financial system’s stability.

All such lenders with assets of up to 1,000 crore will fall under the NBFC-base layer category. This includes NBFC-peer to peer lending platform (NBFC-P2P), NBFC-account aggregator (NBFC-AA), non-operative financial holding company (NOFHC) and NBFCs not availing public funds and not having any customer interface.

The NBFC-middle layer will consist of non-deposit taking lenders classified as systemically important and deposit-taking lenders of asset size of 1,000 crore. This includes standalone primary dealers, infrastructure debt fund - non-banking financial companies (IDF-NBFCs), core investment companies (CICs), housing finance companies and infrastructure finance companies (NBFC-IFCs).

The upper layer will comprise NBFCs that the RBI specifically identifies as warranting enhanced regulatory requirements based on a set of parameters and scoring methodology. The top 10 eligible NBFCs, in terms of their asset size, will always remain in the upper layer, irrespective of any other factor.

The top layer will ideally remain empty, RBI said. This layer can get populated if the central bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the upper layer. Such NBFCs shall move to the top layer from the upper layer.

RBI has also raised the net-owned funds’ requirement for these NBFCs to 10 crore from 2 crore.

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