

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:250
ANSWERED ON:08.12.2006
CHECK OVER NON- BANKING FINANCE COMPANIES
Singh Shri Uday

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India(RBI) has sought to bring about greater discipline in the Non-Banking Finance Companies (NBFCs) sector as reported in The Statesman dated November 6, 2006;
- (b) if so, the details thereof;
- (c) whether certain NBFCs are not adhering to the guidelines of the Union Government/RBI issued from time to time;
- (d) if so, the details thereof; and
- (e) the steps taken by the Government in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (e) :- A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO. 250 FOR 08.12.2006 REGARDING CHECK OVER NON-BANKING FINANCE COMPANIES TABLED BY SHRI UDAY SINGH.

(a)&(b): Based on the recommendations of the Internal Group set up to recommend a policy framework for level playing field in the financial sector, Reserve Bank of India(RBI) has placed in the public domain, for comments, draft guidelines on `Financial Regulation of Systemically Important MBFCs and Banks` Relationship with them`, on November 03, 2006 and the revised draft circular on November 30, 2006. The revised draft guidelines, inter-alia, provide that:

1. All systemically important non deposit taking NBFCs shall:

- (i) maintain a minimum capital adequacy ratio of 10%;
- (ii) comply with single and group exposure norms, which are similar to those applicable to deposit taking NBFCs;

2. Banks may assume exposure on a single NBFC up to 10% of their capital funds, and to all NBFCs up to 40% of their capital funds. These limits may be exceeded by 5% and 10% of capital funds, respectively, if the additional exposure is on account of funds on-lent by the NBFCs to infrastructure sector.

(c), (d) & (e): At present, non-deposit taking NBFCs are subject to minimal regulations by RBI. The regulatory and supervisory attention of RBI has been mainly focused on deposit taking NBFCs and RBI has been taking action against such deposit taking NBFCs which have not complied with the provisions of RBI Act and the directions thereunder or have shown weaknesses in the financial position. Such action includes prohibiting the companies from carrying on non-banking, financial activity, acceptance of deposits and alienation of assets. Wherever the default is persistent in nature, RBI initiates winding up proceedings and also files criminal complaint against the directors of the NBFC. So far, RBI has filed winding up petition against 84 NBFCs, criminal complaints in 70 cases and 27 complaints under Section 420 of IPC for cheating members of public.