



CAIIB PAPER-1

Module-D Unit-6

Advanced Bank Management (ABM)



CAIIB Paper 1 (ABM) Module D Unit 6: Compliance Function and Role of Chief Compliance Officer in NBFCs

Framework For Scale Based Regulation For Non-Banking Financial Companies

Regulatory structure for NBFCs

Comprises of four layers based on their size, activity, and perceived riskiness.

- NBFCs in the lowest layer is known as NBFC - Base Layer (NBFC-BL).
- NBFCs in middle layer and upper layer shall be known as NBFC-Middle Layer (NBFC-ML) and
- NBFC-Upper Layer (NBFC-UL) respectively.
- The Top Layer is ideally expected to be empty and will be known as NBFC - Top Layer (NBFC-TL).

Base Layer Base

Layer comprises of Non-deposit taking NBFCs below the asset size of ` 1000 crore and NBFCs undertaking the following activities:

- NBFC-Peer to Peer Lending Platform (NBFC-P2P),
- NBFC-Account Aggregator (NBFC-AA)
- Non-Operative Financial Holding Company (NOFHC)
- NBFCs not availing public funds and not having any customer interface.

Middle Layer

The Middle Layer consist of

- All deposit taking NBFCs (NBFC-Ds), irrespective of asset size,
- Non-deposit taking NBFCs with asset size of ` 1000 crore and above and

NBFCs undertaking the following activities

- ✓ Standalone Primary Dealers (SPDs),
- ✓ Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs),
- ✓ Core Investment Companies (CICs),
- ✓ Housing Finance Companies (HFCs) and
- ✓ Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

The Upper Layer comprises of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor. Upper Layer shall be populated with NBFCs, identified by way of a parametric scoring methodology, comprising of quantitative and qualitative parameters/ supervisory judgment. The

quantitative and qualitative parameters shall have weightage of 70% and 30% respectively. Scoring methodology for identification of an NBFC as NBFC-UL shall be based on the set of NBFCs fulfilling the following criteria:

- ✓ Top 50 NBFCs (excluding top ten NBFCs based on asset size, which automatically fall in the Upper Layer) based on their total exposure including credit equivalent of off-balance sheet exposure.
- ✓ NBFCs designated as NBFC-UL in the previous year.
- ✓ NBFCs added to the set by supervisors using supervisory judgment.

Top Layer

- ✓ The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFC sin the Upper Layer.
- ✓ Such NBFCs shall move to the Top Layer from the Upper Layer.

Regulatory Changes under Scale Based Regulation (SBR)

Net Owned Fund: Regulatory minimum Net Owned Fund (NOF) for NBFC-ICC, NBFC-MFI and NBFC-Factors shall be increased to ` 10 crores. The following glide path is provided for the existing NBFCs to achieve the NOF of ` 10 crore:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹ 2 crore	₹ 5 crore	₹ 10 crore
NBFC-MFI	₹ 5 crore (₹ 2 crore in NE Region)	₹ 7 crore (₹ 5 crore in NE Region)	₹ 10 crore
NBFC-Factors	₹ 5 crore	₹ 7 crore	₹ 10 crore

However, for NBFC-P2P, NBFC-AA, and NBFCs with no public funds and no customer interface, the NOF shall continue to be ` 2 crores.

NPA Classification: The extant NPA classification norm stands changed to the overdue period of more than 90 days for all categories of NBFCs. A glide path is provided to NBFCs in Base Layer to adhere to the 90 days NPA norm as under:

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

However, the glide path will not be applicable to NBFCs which are already required to follow the 90-day NPA norm.

Experience of the Board: Considering the need for professional experience in managing the affairs of NBFCs, at least one of the directors shall have relevant experience of having worked in a bank/ NBFC.

Ceiling on IPO Funding: There shall be a ceiling of `1 crore per borrower for financing subscription to Initial Public Offer (IPO). NBFCs can fix more conservative limits.

Transition Path

Transition Plan: Once a NBFC is identified for inclusion as NBFC-UL, the NBFC shall be advised about its classification by the Department of Regulation, Reserve Bank and it will be placed under regulation applicable to the Upper Layer. ***For this purpose, the following timelines shall be adhered to:***

- Within three months of being advised by the RBI regarding its inclusion in the NBFC-UL, the NBFC shall put in place a Board approved policy for adoption of the enhanced regulatory framework and chart out an implementation plan for adhering to the new set of regulations.
- The Board shall ensure that the stipulations prescribed for the NBFC-UL are adhered to within a **maximum time-period of 24 months** from the date of advice regarding classification as a NBFCUL from the Reserve Bank. During the period of transition, calibrated increment to business may be allowed through supervisory engagement. The period of 3 months provided for charting out the plan for implementation shall be subsumed within the 24-months' time-period referred to above.
- The roadmap as approved by the Board towards implementation of the enhanced regulatory requirement shall be submitted to the Reserve Bank and shall be subject to supervisory review.
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