

Multiple NBFCs in a group: classification in the middle layer

Background

In October 2021, the Reserve Bank of India ('RBI') introduced scale-based regulations ('SBR'), which apply to non-banking finance companies ('NBFCs') in proportion to their size, activity, and risk profile. It requires NBFCs to comply with the capital, prudential and governance guidelines.

Accordingly, NBFCs in the middle layer are categorised as:

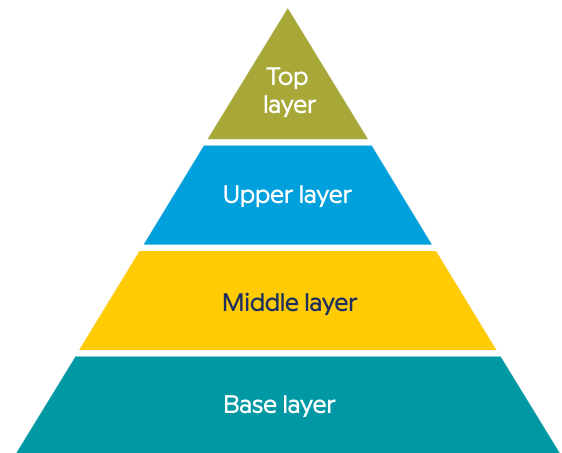
- a. deposit taking NBFCs
- b. non-deposit taking NBFCs with asset size of INR 1,000 crore and above
- c. systemically important non-deposit taking NBFCs (NBFC-NDSI) like standalone primary dealers (SPD), infrastructure debt funds (IDF), core investment companies (CIC), housing finance corporations (HFC), infrastructure finance companies (IFC).

Classification

As per the master direction on deposit-taking NBFC and NBFC-NDSI (issued in 2016), applicable NBFCs that are part of a common 'Group' or are floated by a common set of promoters shall not be viewed on a standalone basis. In line with the existing policy on consolidation of assets of the NBFCs in a 'Group', the total assets of all the NBFCs (including base layer NBFCs) in a Group shall be consolidated to determine the threshold for their classification in the middle layer.

If the consolidated asset size of the Group (as above) is INR 1,000 crore and above, then each investment and credit company (NBFC-ICC), micro finance institution (NBFC-MFI), NBFC-factor and mortgage guarantee company (NBFC-MGC) lying in the Group shall be classified as an NBFC in the middle layer and consequently, regulations as applicable to the middle layer shall apply to them.

NBFC layers



Weblink

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI129CEAD60B20A804890B68E2C53FE0C0B5E.PDF>

Therefore

RBI has considered classifying the (NBFC-ICC), (NBFC-MFI), NBFC-Factor and NBFC-MGC in the middle layer if the consolidated asset size of all the NBFCs in the group to which they belong touches or exceeds INR 1,000 crore. On an individual/standalone basis they may still have an asset size of less than INR 1,000 crore, but due to these regulations (which are effective from 1 October 2022) their classification may change to the middle layer.