February 7, 2005

To

All Non-Banking Financial Companies (NBFCs) accepting/holding public deposits

Dear Sir,

**Cover for ‘public deposits’**

As you are aware, NBFCs raise funds for their operations from various sources like public deposits, bank borrowings, inter-corporate deposits, secured/unsecured debentures, etc.

2. In order to ensure protection of depositors interest, NBFCs should ensure that at all times there is full cover available for public deposits accepted by them. While calculating this cover the value of all debentures (secured and unsecured) and outside liabilities other than the aggregate liabilities to depositors may be deducted from the total assets. Further, the assets should be evaluated at their book value or realizable/market value whichever is lower for this purpose. It shall be incumbent upon the NBFC concerned to inform the Regional Office of the Reserve Bank in case the asset cover calculated as above falls short of the liability on account of public deposits.

3. Further, all NBFCs accepting/holding public deposits are directed to create a floating charge on the statutory liquid assets invested in terms of Section 45-IB of the RBI Act, 1934, in favour of their depositors. Such charge
should be duly registered in accordance with the requirements of the Companies Act, 1956.

4. Please acknowledge receipt and report compliance to the Regional Office of the Bank in whose jurisdiction your company is registered.

Yours faithfully,

(O.P. Aggarwal)
Chief General Manager-in-Charge