RBI releases draft circular on “Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies” for public comments

The Non-Banking Financial Companies (NBFCs) play an important role in the financial system of the country, particularly in delivering credit to the last mile, including the retail as well as MSME sectors. NBFCs’ ability to perform their role effectively and efficiently requires them to be financially resilient, well-regulated and properly governed so that they retain the confidence of all their stakeholders including their lenders and borrowers. The Reserve Bank has always endeavoured to provide and modulate a regulatory architecture consistent with these objectives. In this context, an analysis of the recent developments in the NBFC sector pointed to the need for a stronger Asset Liability Management (ALM) framework in the NBFCs.

In the above background, the Reserve Bank has, today, placed on its website, a draft circular on the “Liquidity Risk Management Framework for Non-Banking Financial Companies (NBFCs) and Core Investment Companies (CICs)” to be adopted by all deposit taking NBFCs; non-deposit taking NBFCs with an asset size of `100 crore and above; and all CICs registered with the Reserve Bank.

While some of the current regulatory prescriptions applicable to NBFCs on ALM framework have been updated / recast, certain new features have been added. Among others, the draft guidelines cover application of generic ALM principles, granular maturity buckets in the liquidity statements and tolerance limits, liquidity risk monitoring tool and adoption of the “stock” approach to liquidity.

In addition, the draft proposes to introduce Liquidity Coverage Ratio (LCR) for all deposit taking NBFCs; and non-deposit taking NBFCs with an asset size of `5000 crore and above. With a view to ensuring a smooth transition to the LCR regime, the proposal is to implement it in a calibrated manner through a glide path over a period of four years commencing from April 2020 and going upto April 2024.

Needless to say, the RBI remains committed to promote a robust, vibrant and well functioning NBFC sector.
The Reserve Bank seeks public comments on the draft framework for consideration before issuing the final guidelines. Responses of NBFCs, market participants and other stakeholders may be sent latest by June 14, 2019 to

The Chief General Manager, Reserve Bank of India
Department of Non-Banking Regulation
2nd Floor, World Trade Centre, Centre 1
Cuffe Parade, Colaba
Mumbai – 400005;

OR by email with subject line “Feedback – Draft Liquidity Risk Management Framework for NBFCs and CICs”.

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