

NBFC MAY 2023 EXAMS onwards

Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

- Pursuant to the announcement made in the Statement on Developmental and Regulatory Policies dated December 04, 2020, a discussion paper titled 'Revised Regulatory Framework for NBFCs - A Scale-based Approach' was issued for public comments on January 22, 2021. Based on the inputs received, it has now been decided to put in place a revised regulatory framework for NBFCs.
- These guidelines shall be effective from October 01, 2022.
- Regulatory structure for NBFCs shall comprise of four layers based on their size, activity, and perceived riskiness. NBFCs in the lowest layer shall be 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).
- Details of NBFCs populating the various layers shall be as prescribed below:

Base Layer

1 The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface¹.

Middle Layer

2 The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

3 The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Appendix to this circular. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

4 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 NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

Categorisation of NBFCs carrying out specific activity

5 As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the NBFCs

- a. NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.
- b. NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.
- c. The remaining NBFCs, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.
- d. Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case

References to NBFC-ND, NBFC-ND-SI & NBFC-D –

From October 01, 2022, all references to NBFC-ND shall mean NBFC-BL and all references to NBFC-D and NBFC-ND-SI shall mean NBFC-ML or NBFC-UL, as the case may be.