भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2023-24/112
DOR.CRE.REC.70/21.01.003/2023-24 January 15, 2024

All Non-Banking Financial Companies including Housing Finance Companies

Madam/ Dear Sir,

Credit/Investment Concentration Norms – Credit Risk Transfer

Please refer to the following instructions, as amended from time to time: (i) paragraphs 32, 91 and 110.4.2 of Master Direction - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 ("MD on NBFC"); and (ii) paragraph 20 of Master Direction - Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated February 17, 2021 ("MD on HFC").

2. The guidelines on Large Exposures Framework (LEF) are applicable to NBFC-Upper Layer (NBFC-UL) in terms of paragraph 110 of the MD on NBFC. The NBFC-Base Layer (NBFC-BL) and NBFC-Middle Layer (NBFC-ML) are, however, governed by the credit/investment concentration norms prescribed at paragraphs 32 and 91 of the MD on NBFC, paragraph 20 of MD on HFC and circular on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs dated October 22, 2021. In order to ensure uniformity and consistency in computation of concentration norms among NBFCs, a review of the extant concentration norms has been carried out and it has been decided as under:

A. Regulations for NBFC-ML

3. Computation of exposure – Credit Risk Transfer Instruments

Aggregate exposure to a counterparty comprising both on and off-balance sheet exposures are calculated based on the method prescribed for capital computation in MD on NBFC and MD on HFC; i.e., on-balance sheet exposures are reckoned at the outstanding amount[1] while the off-balance sheet exposures are converted into credit risk equivalent by applying the credit conversion factor prescribed under capital requirements. Further, as per Annex XIV of the MD on NBFC, credit default swaps (CDS) are currently allowed as credit risk transfer instruments for offsetting exposure to the underlying counterparty. Henceforth, the exposures of NBFC-ML shall also be offset with credit risk transfer instruments listed below:

a. Cash margin/caution money/security deposit held as collateral on behalf of the borrower against the advances for which right to set off is available;
b. Central Government guaranteed claims which attract 0 per cent risk weight for capital computation;
c. State Government guaranteed claims which attract 20 per cent risk weight for capital computation[2];
d. Guarantees issued under the Credit Guarantee Schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) subject to meeting the conditions of circular on 'Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)' dated September 07, 2022, as amended from time to time.

Provided that to be eligible as a credit risk transfer instrument, guarantees shall be direct, explicit, irrevocable and unconditional.

4. Exemptions from credit/investment concentration norms

In addition to the exposures already exempted from credit/investment concentration norms in terms of paragraph 91 of MD on NBFC and paragraph 20 of MD on HFC, exposures listed below shall also be exempt from credit/investment concentration norms:

---

[1] Netting is allowed only for assets where provisions for depreciation or for bad and doubtful debts have been made.

[2] To the extent of State Government guarantee used for offsetting exposures by NBFC-ML, the exposure shall shift to the State Government with applicable risk weight of 20%. No cap has been fixed for shifting of exposure on the State Government.

a. Exposure to the Government of India and State Governments which are eligible for zero percent risk weight under capital regulations applicable to NBFC[3];
b. Exposure where the principal and interest are fully guaranteed by the Government of India[3].

5. **Disclosure:** The exposures where the NBFC has exceeded the prudential exposure limits during the year are required to be disclosed in the Notes to Accounts in the annual financial statements, presently as per paragraph 3.5.4 of Annex XXII of the MD on NBFC and paragraph 3.7.4 of Annex IV of the MD on HFC. Henceforth, computation of exposure limit for disclosure requirements shall be reckoned as per paragraphs 3 and 4 of this circular.

B. Regulations for NBFC-BL

6. NBFC-BL shall put in place an internal Board approved policy for credit/investment concentration limits for both single borrower/party and single group of borrowers/parties. Computation of exposure shall be on similar lines as that for NBFC-ML as given at paragraphs 3 and 4 of this circular.

C. Regulations for NBFC-UL

7. A reference is drawn to paragraph 110.4.2 of MD on NBFC which lists out the credit risk transfer instruments. It is clarified that to be eligible as a credit risk transfer instrument, guarantees shall be direct, explicit, irrevocable and unconditional.

8. The above instructions shall come into force from the date of issuance of the circular.

9. All other terms and conditions for LEF and credit/investment concentration norms shall continue as per the extant instructions.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager

[3] As per Chapter IX of MD on NBFC and Chapter IV of MD on HFC.