FIDC

Finance Industry Development Council

(A body incorporated as a Self-Regulatory Organization for Registered NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)

Tel: 022 21029898/9820035553 ● E-mail: maheshthakkar45@yahoo.in website: www.fidcindia.org

1st May, 2019

Mr. Ajay Tyagi,
Chairman,
Securities & Exchange Board of India,
SEBI Bhavan, Plot No. C-4A,
'G' Block, Bandra-Kurla Complex,
Bandra East,
Mumbai 400 051

Respected Sir,

NEED TO OPEN AVENUES FOR FUND RAISING BY NBFCS

Finance Industry Development Council (FIDC) is a Self-Regulatory Organization (SRO)-cum-Representative Body of Non-Banking Finance Companies, registered with the Reserve Bank of India. FIDC was formed 14 years ago, and is the recognized face of the NBFC sector. We have been engaged in regular interactions both with Reserve Bank of India and Govt. of India, which include pre-budget meetings and also important policy related meetings. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

Over the past few months, certain isolated market events have significantly reduced the flow of funds from the institutional sources of funds. Banks have overnight become wary of lending to this sector (without any industry-wide trigger to that effect).

NBFCs have primarily depended on wholesale sources of funds for their business. A few NBFCs have the license to accept public deposits, but the number of such entities, and the quantum accepted by them have been coming down over time. The RBI has also been signaling strongly that they do not intend to allow NBFCs to accept deposits.

Given the poor depth in the corporate bond market and the varying levels of interest among banks in extending loans to NBFCs (especially in situations similar to the present), there is a crying need to expand the sources of funds for NBFCs.

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Features of On Tap issuances of Bonds/ NCDs

NBFCs have access to Non-Convertible Debentures ("NCDs") having flexible tenure and rates, both through the private placement (with restrictions) and public issue. While private placements have severe restrictions on the number of investors, the frequency of issue etc., public issue of bonds tends to be very expensive, laborious and inflexible.

It is proposed that NBFCs be allowed an **on-tap facility for issuance of NCDs** to the retail market by making the offering of NCDs through an easy to operate and less costly procedure, but with proper governance to provide investor protection and comfort. The features proposed are:

- Bonds/NCDs to be rated minimum BBB- (minimum investment grade). Instruments must be secured and should not fall under the definition of "deposit"
- Company to file umbrella prospectus (valid for one year) with quarterly financial updates. In no event, can the financials be older than 4 months. This document would lay down the overall limits and the type of NCDs to be issued (deep discount/interest bearing etc.)
- Under this, NBFC to be allowed to issue as many NCDs as they wish in whatever frequency they wish to. There should be no need to file an updated prospectus – only updated financials may need to be filed as an addendum.
- There should be no need for a specific issue closure date and issue allotment date. The allotment of bonds to be similar to acceptance of deposits – with tenure being determined from the date of the application.
- NCDs to be marketed similar to deposits. Intermediaries may be allowed
- Tenure may be long term say, 2 or 3 years and upwards
- Given that these are secured instruments, there should be no need to maintain SLR.
- Governance under SEBI guidelines, with overall borrowing cap being permitted by RBI.
- Lead Manager to have responsibility of reporting to SEBI & RBI on quarterly basis
- Grievance redressal mechanism similar to deposit acceptance regime; access for investors to SEBI and RBI Ombudsman
- Minimum investment amount could be low – say, Rs 10,000/- so that greater retail participation is possible.
- Instruments would be listed and tradeable on a recognised stock exchange to provide liquidity to retail investors.

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We hereby request SEBI to kindly consider permitting NBFCs to avail of the proposal to ensure adequate flow of funds to the sector and reduce dependency of NBFCs on the banking sector. This would go a long way in ensuring regular, predictable and affordable flow of credit to underserved segments such as transporters, contractors and MSMEs.

FIDC, as the representative body cum SRO for the NBFC sector, shall be obliged to engage with the concerned officials to give a firm shape to the proposal considering various regulatory parameters.

We look forward to your continued guidance and support towards a healthy growth of the NBFC sector going forward. Assuring of you of our full cooperation always and thanking in you in anticipation.

Yours Faithfully

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
Director General