FIDC

Finance Industry Development Council

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11th June, 2019

Shri Manoranjan Mishra,
Chief General Manager,
Reserve Bank of India,
Department of Non-Banking Regulation,
Central Office, World Trade Centre, 2nd Floor,
Cuffe Parade, MUMBAI 400 005

Respected Sir,

Sub: "Feedback – Draft Liquidity Risk Management Framework for NBFCs and CICs"

NBFCs have over time, assumed a significant role in furthering delivery of credit to the deserving sectors. FIDC, being a representative of a significant number of NBFCs delivering credit to such sectors have always believed in supporting regulations that are intended to help the sector to grow and prosper in a sustainable manner.

We welcome the draft guidelines put out by the RBI on liquidity risk management. The guidelines are intended to bring in predictability in managing liquidity among NBFCs. We have a few observations to place for your consideration to make them more effective and practical to implement.

1. We request that the aforesaid guidelines be made concomitant with provision of a mechanism of liquidity support for NBFCs. Currently, with the tight liquidity conditions in the industry have made generation of funds a very difficult task and we request the RBI to kindly consider putting in place a suitable mechanism for such liquidity support. Alternatively, the implementation of these guidelines may kindly be deferred until return of normal liquidity conditions for the sector.

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2. The guidelines except Annexure – B are sought to be made applicable to all NBFC-ND with assets of over Rs 100 cr. and all NBFC-D. Several of these measures such as granular maturity buckets, the Stock approach, diversification of funding sources, stress testing etc., become very onerous for non-systemically important, smaller NBFCs. We request that the guidelines be made applicable only to those NBFCs that have assets of Rs 1000 cr or more to make the guidelines practicable and yet, address the overall systemic risk.

3. It is not clear as to which entities should make public disclosure as per the format in Appendix – I. Are NBFCs having no market exposure or public funds (except bank/institutional loans) and closely held NBFCs also liable to publish the information? Our submission is to exempt NBFCs not having publicly issued debentures, CP or deposits, but dependent only on bank/institutional loans from such disclosure.

4. On Maturity profiling, since monthly accounts are usually finalised by the 10-12th of the subsequent month and since the accurate data for 1-7 day and 8-14 days buckets may not be available, we suggest that these two buckets be based on estimated cash flows. While calculating maturity buckets, undrawn cash credit limit and bank lines should be allowed to be considered as inflows in the appropriate time buckets

5. We would request clarity on the definition of Available Unencumbered Assets, in case of hypothecation of all assets to the lenders' consortium. Would the excess over the hypothecation requirement be classified as unencumbered assets?

6. We request clarification whether "Cash" used in defining HQLA would include: bank deposits, CDs, liquid mutual funds etc. that can be readily encashed.

7. We request clarity on whether bonds issued by banks can at all be considered for HQLA and if so what is the haircut applicable.

8. For the purpose of ascertaining Total Net Cash Flows, since the stressed outflows are already weighted up to 115%, we request that the further weighing down of cash inflows to 75% of cash inflows be dropped.

9. We would submit that for the purpose of ongoing LCR monitoring, monthly cut off be applied for reckoning the cash flow position.

10. We would submit that the entire SLR held (and not just 80%) be counted as part of HQLA.

11. We would also like to highlight the possibility that lenders to NBFCs may have reservations on their funding being utilised for HQLA and not for business. We would seek your guidance on this aspect as well.

12. On the "market related monitoring tools", we are unable to understand the relevance of price to book ratio etc. for liquidity risk management. We request that ratios not under the control of the NBFC or those related to market movements be done away with.

We request that the aforesaid be considered while finalising the guidelines.

We would be grateful for a meeting with you for us to discuss the guidelines.

Thanking you,

Yours faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL