# FIDC

## Finance Industry Development Council

*(A Representative Body of Assets and Loan Financing NBFCs)*

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

Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in Website: www.fidcindia.org.in


14th January 2021

**Shri Shaktikanta Das**
Governor
Reserve Bank of India,
Central Office Building,
Shahid Bhagat Singh Marg, Fort,
Mumbai – 400 001

Respected Sir,

**SUB: FIDC Observations on Working Paper by RBI Internal Working Group dated 20th November, 2020**

***Here is wishing you a very Happy and prosperous New Year to you.***

In view of the working paper put forth by the Internal Working Group of the RBI titled "Report of the Internal Working Group to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks", the Finance Industry Development Council (FIDC) would like to make the observations/ comments related to the following issues:

I. **Tax neutrality of restructuring under the proposed NOFHC structure:** The IWG recommendations propose that the financial services businesses be housed under an NOFHC. The proposed bank and other financial services businesses will then become subsidiaries of such NOFHC. Existing players will need to undertake a restructuring to adhere to such NOFHC structure which will also have a taxation impact. We would like to request the RBI to make the necessary representation to relevant Government departments in order to ensure tax neutrality for such restructuring and that the suitable

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exemption circulars from the revenue department at Ministry of Finance, must be simultaneously issued to avoid such a situation.

II. **Minimum size to be eligible for application of banking license:** RBI should consider a mechanism/ relaxation for applying Group to have a collective asset size of INR 50,000 crores through aggregation within the group as the entity which applies for the Bank License may not have adequate asset size (eg. within a group there may exist two separate entities of HFC and NBFC or 2 separate NBFCs and collectively these may qualify and apply for the Banking License). Further, the converted entity should be allowed time period to replace the existing liabilities through CASA and FD over time to fund its existing asset base.

III. **Applicability of reserve ratios:** In the event that an existing NBFC converts into a bank, its existing asset book will be part of the asset book of the new proposed bank. Application of reserve ratios to the entire asset book of the bank will be burdensome to the new entity. We would therefore request that the erstwhile NBFC book be awarded an exemption from reserve requirements under banking regulations. Such reserve requirements may become applicable to the book created by the new banking entity from its inception, or alternatively, sufficient time may be given to reach the targeted reserve ratios.

IV. **Time relaxation for adherence to Priority Sector Lending (PSL) norms as applicable to banks:** We would request the RBI to award the converting NBFCs a relaxation on compliance with priority sector lending norms. The new proposed bank will need to build lending capabilities in many areas to meet these requirements and will need a reasonable period to scale its efforts in order to meet the prescribed limits on PSL. We would request that a 3-5 year period be awarded to converting NBFCs to meet these requirements.

V. **Time relaxation for adherence to sector concentration norms as applicable to banks:** We would request the RBI to award the converting NBFCs a relaxation on compliance with sector concentration norms. Many NBFCs have portfolios focused on a few sectors and will therefore be concentrated in those sectors initially. The new proposed bank will need to build lending capabilities in many areas to meet these requirements and will need a reasonable period to scale its efforts in order to meet the prescribed limits on sector concentration norms. We would request that a 3-5 year period be awarded to converting NBFCs to meet these requirements.

We thank the RBI for giving us the opportunity to present our views on this important topic. FIDC and its members look forward to the direction from the RBI. We are confident that the RBI will review our comments and observations favourably and provide the necessary dispensation in key areas to make the transition smooth for NBFCs converting into banks.

Thanking you,

Yours faithfully,

**For FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR**
**DIRECTOR GENERAL**
**98200 35553**