GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

UNSTARRED QUESTION NO. 1895

TO BE ANSWERED ON THE 21ST DECEMBER 2018/ AGRAHAYANA 30, 1940 (SAKA)

Non-Banking Financial Companies

1895. SHRI KONAKALLA NARAYANA RAO:
SHRI RAVNEET SINGH:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken note of the Non-Banking Financial Companies (NBFCs) which are suffering from liquidity issues/ significant liquidity crunch recently;

(b) if so, the details thereof;

(c) the manner in which the Government has reassured the investors in the wake of this crisis;

(d) whether the Government has provided any additional liquidity to the NBFCs, if so, the details thereof; and

(e) the other steps taken by the Government to provide additional liquidity to the NBFCs?

ANSWER

Minister of State in the Ministry of Finance
(SHRI SHIV PRATAP SHUKLA)

(a) and (b): As per inputs received from the Department concerned, market participants have reported on tight liquidity conditions pursuant to the default on its debt obligations by Infrastructure Leasing & Financial Services Limited (IL&FS), a large Systemically Important Non-Deposit Accepting Core Investment Company (CIC-ND-SI). The overall liquidity conditions in the banking system have otherwise also been pressurised since the second half of August 2018 due to factors like increase in credit off-take, festive demand, fund requirements, etc.

(c): Government superseded the existing Board of IL&FS, and appointed a new Board of Directors on 1st October 2018, which has been tasked with the responsibility of preparing a robust and time-bound resolution plan. The Financial Stability and Development Council (FSDC) in its 19th meeting held on 30th October 2018, discussed at length, *inter alia*, the current liquidity situation, including segmental liquidity position in the NBFCs and mutual fund space.

(d) and (e): Reserve Bank of India (RBI) has apprised that the following measures have been taken to improve the liquidity in the market and to improve the liquidity of NBFCs:

(1) Open market operations were conducted in addition to regular Liquidity Adjustment Facility (LAF) auctions to inject liquidity in the financial markets.

(2) RBI permitted banks to reckon Government securities held by them up to an amount equal to their incremental outstanding credit to NBFCs and Housing Finance Companies (HFCs), over and above the amount of credit to NBFCs and HFCs outstanding on their books as on 19th October 2018, as Level 1 High Quality Liquid Asset (HQLA) under the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory Statutory Liquidity Ratio (SLR) requirement. This is in addition to the existing FALLCR of 13 percent of Net Demand and Time Liabilities (NDTL), and limited to 0.5 percent of the bank's NDTL. The above additional FALLCR will be available up to 31st December 2018.

(3) The single borrower exposure limit for NBFCs that do not finance infrastructure stands increased from 10 percent to 15 percent of capital funds, up to 31st December 2018.

(4) Banks were permitted on 2nd November 2018 to provide Partial Credit Enhancement (PCE) within the aggregate PCE exposure limit of 20% for bonds of minimum tenor of three years issued by NBFC-ND-SIs registered with the RBI and HFCs registered with the National Housing Bank, within one percent of capital funds and with regard to extant single/group borrower exposure limits for refinancing the existing debt.

(5) RBI reduced the minimum average maturity requirement for External Commercial Borrowings (ECBs) in the infrastructure space raised by eligible borrowers from five years to three years with effect from 6th November 2018.

(6) To encourage NBFCs to securitise/assign their eligible assets, in respect of loans of original maturity above five years, RBI has relaxed till May 2019 the Minimum Holding Period requirement for originating NBFCs to receipt of repayment of six monthly instalments or two quarterly instalments, subject to Minimum Retention Requirement for such securitisation/assignment transactions being 20% of the book value of the loans being securitised or 20% of the cash flows from the assets assigned.

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