GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-2280
ANSWERED ON-2.12.2019

NBFCs LIQUIDITY BUFFER

2280. SHRI NAMA NAGESWARA RAO:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has taken any steps to ensure that Non-Banking Financial Corporations (NBFCs) maintain liquidity buffer during the last two years, if so, the details thereof and if not, the reasons therefor;

(b) whether as per the new rules, NBFCs will have to keep high quality assets like cash, Government securities and marketable securities issued or guaranteed by foreign sovereigns to tackle any risk or shock, if so, the details thereof; and

(c) whether any initiative or review was undertaken by the Government to know the status of NBFCs in the country in the light of recent economic slowdown, if so, the details thereof?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ANURAG SINGH THAKUR)

(a): Reserve Bank of India (RBI) has apprised that in respect of maintenance of liquidity buffer by NBFCs, Non-deposit taking NBFCs having asset size of Rs. 100 crore and above and all deposit taking NBFCs holding public deposits of Rs. 20 crore or more, were required to put in place an asset liability management (ALM) system which, *inter-alia*, covered the monitoring of structural and short term dynamic liquidity. Further, in order to strengthen and raise the standard of the ALM framework applicable to NBFCs, RBI guidelines on the subject have been revised *vide* its circular dated 4.11.2019. The revised framework has been made applicable to all non-deposit taking NBFCs with asset size of Rs. 100 crore and above, systemically important CICs and all deposit taking NBFCs irrespective of their asset size. As per this revised guidelines, NBFC must have a contingency funding plan for responding in case of severe disruptions in a timely manner and at a reasonable cost. This also includes details of available/potential contingency funding sources and the amount/estimated amount which can be drawn from these sources. Also, NBFC must conduct stress tests on a regular basis for a variety of short-term and NBFC-specific and market-wide stress scenarios.

(b): RBI has apprised that as per its new guidelines dated 4.11.2019, all non-deposit taking systemically important NBFCs with asset size of Rs. 5,000 crore and above (except CICs, Type 1 NBFC-Non Deposit, Non-Operating Financial Holding Companies and Standalone Primary Dealers) and all deposit taking NBFCs irrespective of the asset size are required to maintain a minimum Liquidity Coverage Ratio (LCR) of 50% in a phased manner beginning 1.12.2020 and achieve 100% in 1.12.2024. For the purpose of LCR, these NBFCs are required to keep "High Quality Liquid Assets (HQLA)" *i.e.* liquid assets that can be readily sold or immediately converted into cash at little or no loss of value or used as collateral to obtain funds in a range of stress scenarios. The fundamental characteristics of HQLAs include low credit and market risk, ease and certainty of valuation, low correlation with risky assets and listing on a developed and recognized exchange market. The market related characteristics of HQLAs include active and sizeable market, presence of committed market makers, low market concentration and flight to quality.

(c): NBFCs are regulated and supervised by the RBI as per powers vested in it under the provisions contained in Chapter IIIB of the Reserve Bank of India Act, 1934. RBI has informed that it is closely monitoring the liquidity position of the NBFCs and will continue to monitor the activity and performance of the NBFC sector with a focus on major entities and their inter-linkages with other sectors. RBI has further informed that with a view to strengthen the NBFCs and maintain stability of the financial system, it is taking necessary regulatory and supervisory steps.

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