

FIDC

Finance Industry Development Council

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

7 December 2006

Shri.V.Leeladhar
Deputy Governor
Reserve Bank of India
Central Office Bldg, 18th Floor
Shahid Bhagat Singh Road,
Mumbai 400 001


Respected Sir:

Re : Amended draft guidelines for Systemically Important NBFCs.

We sincerely thank you for responding to our submissions made in response to the first draft guidelines issued by RBI on November 3, 2006.

We are happy to note that you have proposed to change the bank lending limit to NBFCs from the earlier proposal of 5% of Net Owned Funds to 10% of Capital funds of the banks. The discretion given to banks to increase this limit by an additional 5% for NBFCs funding infrastructure assets is also a welcome step . The overall bank-exposure to NBFCs at 40% of a bank's Capital Funds - instead of Net Owned Funds, as proposed earlier - is also a major relief for us. Here again, the additional exposure of 10% for infrastructure funding is very welcome.

We, however, note that while introducing "Capital to Risk-weighted Assets Ratio" (CRAR) for NBFC-ND at a lower level of 10%, the CRAR for NBFC-D has been left at the existing higher level of 12%. It is our earnest submission that the CRAR be made uniform at 10%, for NBFC-D also. Merely because, NBFC-D accept public deposits, they should not be required to maintain a higher CRAR, since public deposit accepting companies also maintain SLR at 15% of the public deposits.

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A vast majority of Deposit taking NBFCs are predominantly engaged in financing commercial vehicles, construction equipment and small scale industries, all of which are classified as 'Priority Sector' by RBI. It is therefore submitted that the proposed relaxation of 5% and 10% to a single NBFC and all NBFCs, respectively, be extended to cover on-lending by NBFCs to the Priority Sector, as well.

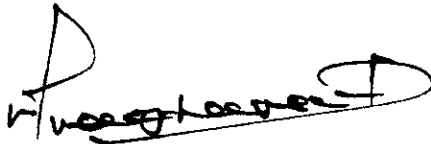
We summarise our request as under :-

1. Reduction of CRAR to 10% for NBFC-D, in line with that proposed for NBFC-ND.
2. The scope of the additional exposure of 5% to a single NBFC and 10% to all NBFCs, by banks, be expanded to cover on-lending by NBFCs to the Priority Sector, in addition to the Infrastructure sector.

While expressing our utmost gratitude for having considered our earlier submissions, we seek your favourable consideration of the above requests, which would facilitate the healthy growth of this sector.

Thanking you,

Yours truly



T T Srinivasaraghavan
CHAIRMAN