

Draft Circular for comments

DOR.FIN.REC.No.##/03.10.136/2023-24

January 15, 2024

All Housing Finance Companies (HFCs)
All Non-Banking Finance Companies (NBFCs)

Madam/ Dear Sir,

Review of regulatory framework for HFCs and harmonisation of regulations applicable to HFCs and NBFCs

Please refer to our [circular DOR.NBFC \(HFC\).CC.No.118/03.10.136/2020-21 dated October 22, 2020](#), issued after examination of inputs received on the draft regulatory framework for HFCs, which was placed in public domain on [June 17, 2020](#). Reference is invited to para 4 of the above circular advising that further harmonisation between the regulations of HFCs and NBFCs will be taken up in a phased manner in the next two years so as to ensure that the transition is achieved with least disruption.

2. Since the transfer of Regulation of HFCs from National Housing Bank (NHB) to Reserve Bank with effect from August 09, 2019, various regulations were issued to HFCs treating them as a category of NBFCs and the regulatory framework for HFCs was aligned with that for NBFCs to the extent possible. To be consistent with this policy stance, as stated in para 4 of the aforementioned circular, an analysis of regulations as applicable to HFCs vis-à-vis NBFCs was undertaken, with an objective of harmonizing regulations of HFCs, duly considering the specialized nature of HFCs catering to the housing sector.

3. Accordingly, based on a review of the extant regulations applicable to HFCs prescribed vide [Master Direction – Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#), it has been decided to issue revised regulations as detailed in the [Part A of Annex](#). As part of the exercise, certain regulations applicable to NBFCs have also been reviewed and revised regulations as

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detailed in the [Part B of Annex](#) are notified. The revised regulations shall be applicable with immediate effect, unless specified otherwise.

4. The relevant [Master Directions – Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#), [Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#) and [Master Direction – Reserve Bank of India \(Non-Banking Financial Company– Scale Based Regulation\) Directions, 2023](#) are being modified accordingly.

Yours faithfully,

(J.P. Sharma)
Chief General Manager

Part A

Section I: Guidelines regarding Acceptance of Public Deposits
(applicable only to HFCs holding CoR to accept/ hold deposits)

1. Currently, HFCs accepting public deposits are subject to more relaxed prudential parameters on deposit acceptance as compared to NBFCs. Since the regulatory concerns associated with deposit acceptance is same across all categories of NBFCs, it has been decided to move HFCs towards the regulatory regime on deposit acceptance as applicable to deposit-taking NBFCs and specify uniform prudential parameters as prescribed under [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#). Accordingly, the revised regulations as stated in subsequent paragraphs would be applicable to HFCs accepting or holding public deposits.

Maintenance of a minimum percentage of liquid assets

2. Currently, in terms of Section 29B of the NHB Act, 1987, deposit taking HFCs are required to maintain 13 per cent of liquid assets against public deposits held by them. In exercise of powers conferred under Section 29B of NHB Act, 1987, it has now been decided that all deposit taking HFCs shall maintain, on an ongoing basis, liquid assets to the extent of 15 per cent of the public deposits held by them, in a phased manner as specified below:

Timeline	Unencumbered approved securities, to be held as a per cent of public deposits	Total liquid assets along with unencumbered approved securities to be held as a per cent of public deposits
Currently	6.50%	13%
September 30, 2024	8.00%	14%
March 31, 2025	10%	15%

Safe Custody of Liquid Assets

3. Deposit taking HFCs are required to maintain liquid assets under Section 29B of NHB Act and such liquid assets shall be entrusted for safe custody with specified entities as stated in para 40 of [Master Direction – Non-Banking Financial Company –](#)

[Housing Finance Company \(Reserve Bank\) Directions, 2021](#). It has been decided that the regulations on safe custody of liquid assets for HFCs shall be aligned with those of NBFCs in the interest of harmonization of regulations. Accordingly, the instructions contained in para 33 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#)¹ on *Safe Custody of Liquid Assets / Collection of Interest on SLR Securities* shall mutatis-mutandis be applicable to deposit taking HFCs; and the existing regulations on *Safe custody of approved securities* as contained in para 40 of Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 stand repealed.

Full cover for public deposits

4. HFCs shall ensure that full asset cover is available for public deposits accepted by them at all times in terms of para 42.1 of [Master Direction – Non-Banking Financial](#)

¹ **33. Safe Custody of Liquid Assets**

(1) every non-banking financial company shall -

(i) open a Subsidiary General Ledger (SGL) account with the Bank or a Gilt account with Constituent's Subsidiary General Ledger (CSGL) account holder or a dematerialized account with a depository through a depository participant registered with the Securities and Exchange Board of India and keep the unencumbered approved securities required to be maintained by it in pursuance of section 45-IB of the RBI Act and the Directions as specified in Chapter III of these directions in such account;

(ii) designate one of the scheduled commercial banks, in the place where the registered office of the non-banking financial company is situated, as its designated banker and entrust, in physical form, to such bank or the SHCIL the unencumbered term deposits in any scheduled commercial bank maintained by it in pursuance of directions as specified in Chapter III of these directions;

and intimate the name and address of such entity where it has opened its gilt account or the depository (and the depository participant) where it has held its dematerialised account, in writing, to the Regional Office of the Bank under whose jurisdiction the registered office of the company is situated, as specified in First Schedule hereto:

Provided that where a non-banking financial company intends to entrust the securities specified in clause (ii) above with the entity, at a place other than the place at which its registered office is located, it may do so with the prior approval, in writing, of the Regional Office of the Bank under whose jurisdiction the registered office of the company is situated, as specified in First Schedule hereto:

Provided further that the government securities held in the said SGL account or gilt account or dematerialised account, shall not be traded, either by entering into ready forward contracts, including reverse ready forward contracts, or otherwise, except, by following the procedure and to the extent, as hereinafter specified.

(2) The securities mentioned in sub-paragraph (1) above shall continue to be kept as specified therein for the benefit of the depositors and shall not be withdrawn or encashed or otherwise dealt with by the non-banking financial company except for repayment to the depositors with the prior approval of Reserve Bank of India:

Provided that,

(i) a non-banking financial company may withdraw a portion of such securities in proportion to the reduction of its public deposits duly certified to that effect by its auditor;

(ii) the market value of these securities shall, at no point of time, be less than the percentage of public deposits as specified in the directions as specified in Chapter III of these directions.

(3) Where the non-banking financial company intends to trade, either by entering into ready forward contracts, including reverse ready forward contracts, or otherwise, in the government securities that are held in excess of the requirement under section 45-IB of the Act and directions as specified in Chapter III of these directions, the same shall be undertaken by opening a separate SGL account or gilt account or dematerialised account, subject to the Bank's instructions in the matter, for keeping such excess government securities.

(4) In order to protect the interest of depositors, an exclusive SGL or gilt account or dematerialized account to hold Government securities shall be maintained for securities held for the purpose of compliance with section 45-IB of the Act. This account shall be operated only for purchase or sale of securities due to increase or decrease in the quantum of public deposits or withdrawal of securities for encashment on maturity or for repayment to depositors in special circumstances.

[Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#). Henceforth, it would be incumbent upon the HFC concerned to inform NHB in case the above asset cover falls short of the liability on account of public deposits.

Rating of deposits, ceiling on quantum of deposits and period of deposits

5. To be eligible for accepting public deposits, the deposit taking HFCs shall invariably obtain minimum investment grade credit rating as specified in para 25 of [Master Direction – Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#) at least once a year. In case their credit rating is below minimum investment grade, such HFCs shall not renew existing deposits or accept fresh deposits thereafter till they obtain an investment grade credit rating.

6. The ceiling on quantum of public deposits held by deposit taking HFCs, which comply with all prudential norms and minimum investment grade credit rating as specified, shall stand reduced from 3 times to 1.5 times of net owned fund with effect from the date of this circular. Deposit taking HFCs holding deposits in excess of the revised limit shall not accept fresh public deposits or renew existing deposits till such time the quantum of public deposits is below the revised limit. However, the existing excess deposits will be allowed to run off till maturity.

7. Currently, HFCs are allowed to accept or renew public deposits repayable after a period of twelve months or more but not later than one hundred and twenty months from the date of acceptance or renewal of such deposits. It has been decided that henceforth, with effect from the date of this circular, the public deposits accepted or renewed by HFCs shall be repayable after a period of twelve months or more but not later than sixty months. Existing deposits with maturities above sixty months shall be repaid as per their existing repayment profile.

Branches and appointment of agents to collect deposits

8. In terms of para 30 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#), deposit taking NBFCs are subject to regulations on opening of branches and appointment of agents to collect deposits. However, similar regulations are not prescribed in case of HFCs.

In the interest of alignment of regulations, it has been decided that henceforth, the instructions contained in para 30 of Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016² on *Branches and appointment of agents to collect deposits* shall mutatis-mutandis be applicable to deposit taking HFCs, and necessary notification by HFCs as required in these instructions shall be sent to NHB.

Restrictions on investments in unquoted shares

9. Deposit taking NBFCs are subject to restrictions on investments in unquoted shares in terms of para 40 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#). Such restrictions are not applicable to deposit taking HFCs but there are limits prescribed on exposure to capital market vide para 23 of [Master Direction – Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#). It is advised that henceforth, deposit taking HFCs shall fix Board-approved internal limits separately within the limit of direct investment, for investments in unquoted shares of another company which is not a subsidiary company or a company in the same group of the HFC. Such Board-approved internal limit shall form part of overall limits and sub-limits for exposure to capital market for deposit taking HFCs.

Explanation – While calculating the ceiling on investment in unquoted shares, investments in such shares of all companies shall be aggregated.

Provided that the ceiling on the investment in unquoted shares shall not be applicable to an HFC in respect of investment in the equity capital of an insurance company upto the extent specifically permitted, in writing, by the Reserve Bank.

² **30. Branches and appointment of agents to collect deposits**

(1) No non-banking financial company shall open its branch or appoint agents to collect deposits except as provided hereunder:

(i) a non-banking financial company having the certificate of registration issued under section 45-1A of the RBI Act and otherwise entitled to accept public deposits as per paragraph 12 of these Directions, shall open its branch or appoint agents if its

(a) NOF is up to Rs. 50 crore	Within the State where its registered office is situated; and
(b) NOF is more than Rs. 50 crore and its credit rating is AA or above	Anywhere in India

Explanation: A non-banking financial company with asset size greater than ₹50 crore and credit rating below AA, shall not be eligible to open branches anywhere in the country and can open branches only within the state where its registered office is situated.

(2) (i) for the purpose of opening a branch, a non-banking financial company shall notify to the Bank of its intention to open the proposed branch;

(ii) on receipt of such advice, the Bank may, on being satisfied that in the public interest or in the interest of the concerned non-banking financial company or for any other relevant reasons to be recorded, reject the proposal and communicate the same to the non-banking financial company;

(iii) if no advice of rejection of the proposal under (ii) above is communicated by the Bank within 30 days from the receipt of such advice, the non-banking financial company may proceed with its proposal.

Section II: Other instructions
(applicable to HFCs as stated in relevant paragraphs)

10. It has been decided that HFCs shall also be allowed to hedge the risks arising out of their operations like in case of NBFCs. Further, HFCs shall be allowed to diversify their activities into certain fee-based activities without risk participation like in case of NBFCs, duly ensuring compliance to statutory provisions/ regulations prescribed for such activities. Further, a review of certain existing HFC regulations has been taken depending on stakeholders' feedback. Relevant regulations for HFCs are prescribed in the following paragraphs.

Participation in exchange traded currency derivatives³

11. In order to hedge their underlying exposures, HFCs are allowed to participate in the following SEBI recognized exchanges, as clients, subject to adherence to relevant instructions as issued by the Reserve Bank:

11.1. Participation in Currency Futures – All HFCs can participate in currency futures exchanges, subject to the guidelines issued in the matter by Foreign Exchange Department of the Reserve Bank and necessary disclosures in balance sheet in accordance with guidelines issued by SEBI.

11.2 Participation in Currency Options - Non-deposit taking HFCs with asset size of ₹1000 crore and above can participate in currency options exchanges subject to the guidelines issued in the matter by Foreign Exchange Department of the Reserve Bank and necessary disclosures in balance sheet in accordance with guidelines issued by SEBI.

Participation in Interest Rate Futures⁴

12.1. All HFCs can participate in the designated Interest rate Futures (IRF) exchanges recognized by SEBI, as clients, subject to adherence to instructions contained in [Rupee Interest Rate Derivatives \(Reserve Bank\) Directions, 2019 dated June 26, 2019](#), as amended from time to time, for the purpose of hedging their underlying exposures.

³ HFCs may continue to participate in permitted currency derivatives in OTC market, as hitherto, for hedging their underlying exposures, subject to adherence to relevant instructions as issued by the Reserve Bank.

⁴ HFCs may continue to participate in Forward Rate Agreements and Interest Rate Swaps in OTC market, as hitherto, for hedging their underlying exposures, subject to adherence to relevant instructions as issued by the Reserve Bank.

12.2. Non-deposit taking HFCs with asset size of ₹1,000 crore and above (as per audited balance sheet of immediately preceding financial year) are permitted to participate in the interest rate futures market permitted on recognized stock exchanges, as trading members, subject to adherence to instructions contained in [Rupee Interest Rate Derivatives \(Reserve Bank\) Directions, 2019 dated June 26, 2019](#), as amended from time to time.

Credit Default Swaps (CDS)

13. HFCs are permitted to participate in CDS market as users only and they shall buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not sell protection and hence, shall not enter into short positions in the CDS contracts. However, they are permitted to exit their bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond or by assigning the contract to any other eligible market participant through novation (only in case of events such as winding-up or mergers/ acquisitions)⁵. Apart from complying with relevant instructions governing CDS, HFCs, as users, shall also ensure adherence to the guidelines as provided in Annex XIV of [Master Direction – Reserve Bank of India \(Non-Banking Financial Company– Scale Based Regulation\) Directions, 2023](#), as amended from time to time, which shall be applicable, *mutatis-mutandis*, to them.

Issue of co-branded credit cards

14. HFCs are allowed selectively to issue co-branded credit cards with scheduled commercial banks, without risk sharing, with prior approval of the Reserve Bank, for an initial period of two years and a review thereafter. HFCs fulfilling the minimum eligibility requirements and adhering to the stipulations as detailed in Annex XVII of [Master Direction – Reserve Bank of India \(Non-Banking Financial Company– Scale Based Regulation\) Directions, 2023](#) (as amended from time to time) which are extended, *mutatis-mutandis*, to HFCs, are eligible to apply. Further, HFCs shall also adhere to instructions prescribed in [Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022](#) (as amended from time to time), to the extent applicable to them.

⁵ Regulations on novation are applicable to HFCs as well as NBFCs.

Accounting Year

15. With regard to accounting year, all HFCs are required to prepare their financial statements for the year ending on the 31st day of March. It has been decided that HFCs shall finalise their balance sheet within 3 months from the date to which it pertains. Further, whenever an HFC intends to extend the date of its balance sheet as per the provisions of Companies Act, it shall take prior approval of NHB before approaching Registrar of Companies (RoC) for this purpose. In cases where NHB and RoC grants extension of time, the HFC shall furnish to NHB a proforma balance sheet (unaudited) as on March 31 of the year and the returns due on the said date.

Periodicity of IS Audit

16. Attention is invited to para 50.1.2 of [Master Direction – Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#) wherein periodicity of IS Audit is prescribed. It is now advised that the Audit Committee must ensure that an Information System Audit is conducted as per the periodicity prescribed in [Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices dated November 07, 2023](#), as amended from time to time.

Investment through Alternative Investment Funds for calculation of NOF

17. In terms of Section 29A of the National Housing Bank Act, 1987, the investments/ loans/ exposures to subsidiaries, companies in the same group and other HFCs, in excess of 10 per cent of owned fund, is reduced from the owned fund, in order to arrive at Net Owned Fund (NOF) of an HFC. In this context, while arriving at the NOF, investment made by HFC in entities of the same group, either directly or indirectly, for example through an Alternative Investment Fund (AIF), shall be treated alike, provided the funds in the AIF (company) have come from HFC to the extent of 50% or more; or where the beneficial owner in the case of AIF (trust) is the HFC and 50% of the funds in the Trust have come from the HFC. For this purpose, “beneficial ownership” would mean holding the power to make or influence decisions in the Trust and being the recipient of benefits arising out of the activities of the Trust.

Technical Specifications for all participants of Account Aggregator ecosystem

18. In terms of provisions of para 3(1)(xi) and 3(1)(xii) of [Master Direction – Non-Banking Financial Company – Account Aggregator \(Reserve Bank\) Directions, 2016](#), HFCs fall under the definition of ‘Financial Information Provider’ and ‘Financial Information User’ in the Account Aggregator (AA) ecosystem. NBFC-Account Aggregator (AA) consolidates financial information, as defined in para 3(1)(ix) of these master directions, of a customer held with different financial entities, spread across financial sector regulators adopting different IT systems and interfaces. In order to ensure that such movement of data is secured, duly authorised, smooth and seamless, it has been decided to put in place a set of core technical specifications for the participants of the AA ecosystem. Reserve Bank Information Technology Private Limited (ReBIT), has framed these specifications and published the same on its website (www.rebit.org.in). HFCs acting either as ‘Financial Information Provider’ or ‘Financial Information User’ are expected to adopt the technical specifications published by ReBIT, as updated from time to time.

Part B

Section III: Guidelines regarding Acceptance of Public Deposits

(applicable only to NBFCs holding CoR to accept/ hold deposits)

Nomination rules

19. As per para 32 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#), NBFCs which are accepting public deposits need to comply with the provision of the Banking Companies (Nomination) Rules, 1985. In terms of the Rule 2(9) of the said rules, NBFCs are required to acknowledge in writing to the depositor/s the filling of the relevant duly completed form of nomination, cancellation and/or variation of the nomination. It is now advised that NBFCs shall devise a proper system of acknowledging the receipt of duly completed form of nomination, cancellation and/or variation of the nomination. Such acknowledgement shall be given to all the customers irrespective of whether the same is demanded by the customers. Further, NBFCs shall introduce the practice of recording on the face of the passbooks/ receipts the position regarding availment of nomination facility with the legend “Nomination Registered” and they shall also indicate the name of the Nominee in the passbook/ receipt, in case the customer is agreeable to the same.

Repayment of public deposit in order to meet certain expenses of an emergent nature

20. Attention is invited to chapter V of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#). It has been now decided that for a non-banking financial company not being a problem Non-Banking Financial Company⁶, in order to meet certain expenses of an emergent nature, subject to the satisfaction of the NBFC concerned about such circumstances– 20.1 ‘Tiny deposits’⁷ may prematurely be paid to individual depositors, at the request of the depositor, before the expiry of three months from the date of acceptance of such deposits, in entirety, without interest;

⁶ As defined in clause 1 of the explanation to para 27 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#).

⁷ As defined in clause 2 of the explanation to para 27 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#).

20.2. In case of other public deposits, not more than fifty per cent of the amount of the principal sum of deposit or ₹5 lakh, whichever is lower, may be prematurely paid to individual depositors, at the request of the depositors, before the expiry of three months from the date of acceptance of such deposits, without interest; the remaining amount with interest at the contracted rate shall be governed by the provisions of the extant directions as applicable for public deposits;

Provided further that in cases of critical illness, hundred per cent of the amount of the principal sum of deposit, may be prematurely paid to individual depositors, at the request of the depositors, before the expiry of three months from the date of acceptance of such deposits, without interest.

Explanation:

a. For this purpose, expenses of an emergent nature include medical emergency or expenses due to natural calamities/ disaster as notified by the concerned Government/ authority.

b. For the definition of 'Critical illness', NBFCs shall be guided by the IRDAI (Health Insurance) Regulations, 2016 and the guidelines issued thereunder, as amended from time to time.

c. The amount as per these provisions shall also apply to the existing deposit contracts wherein the individual depositor does not have a right to premature withdrawal of the deposit before the expiry of three months.

Intimation of maturity of deposits to depositors

21. As per para 17 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#), NBFCs need to intimate the details of maturity of the deposit to the depositor at least two months before the date of maturity of the deposit. It has been decided to reduce the period from two months to 14 days. Accordingly, it shall be the obligation of NBFC to intimate the details of maturity of the deposit to the depositor at least 14 days before the date of maturity of the deposit.

Register of deposits

22. Attention is invited to Para 29 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#). It is

advised that NBFCs may maintain the particulars/ details of the deposits, as required under the above-mentioned para, on centralized computer database; provided the authenticated particulars of public deposits are sent to the respective branches, updating the information on quarterly basis i.e. as on March 31, June 30, September 30 and December 31, every year irrespective of the fact that the branch does not open deposit accounts. The information pertaining to a quarter should reach the branch concerned before the 10th day of the next quarter.

Safe Custody of Liquid Assets

23. Deposit taking NBFCs are required to maintain liquid assets under Section 45-IB of the RBI Act and such liquid assets shall be entrusted for safe custody with specified entities as stated in para 33 of [Master Direction – NBFC- Acceptance of Public Deposits Directions, 2016](#). Since approved securities are now being maintained only in dematerialized form, the provisions of para 33(5) of these directions are withdrawn.

Section IV: Other instructions

(applicable to NBFCs as stated in relevant paragraphs)

Periodicity of IS Audit

24. Attention is invited to para 94.1.2 of [Master Direction – Reserve Bank of India \(Non-Banking Financial Company– Scale Based Regulation\) Directions, 2023](#) wherein periodicity of IS Audit is prescribed. It is now advised that the Audit Committee of applicable NBFCs must ensure that an Information System Audit is conducted as per the periodicity prescribed in [Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices dated November 07, 2023](#), as amended from time to time.
