

Reserve Bank ups threshold for reporting of fraud by NBFCs

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1

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2

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3

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Mumbai, February 18:

The Reserve Bank of India on Thursday increased the threshold for reporting of frauds and submission of quarterly progress reports on frauds, by non-banking finance companies (NBFCs) to the Central Fraud Monitoring Cell, from ₹ 25 lakh as on date to ₹ 1 crore with immediate effect.

As regards reporting and submission of quarterly progress reports below the revised threshold, NBFCs will have to furnish the same to the Regional Office of the RBI, Department of Non-Banking Supervision, under whose jurisdiction the Registered Office of the NBFC falls.

The RBI directive on frauds applies to all deposit-taking NBFCs (including Residuary Non-Banking Companies) and non-deposit taking NBFCs that are systemically important.

According to the RBI, a large number of frauds are committed by unscrupulous borrowers including companies, partnership firms/proprietary concerns, their directors or partners, through various methods that include fraudulent discounting of instruments, fraudulent removal of pledged stocks or disposal of hypothecated stocks (without the NBFC's knowledge), inflating the value of stocks in the stock statement, and drawing excess finance.

Lack of supervision

Further, frauds are perpetrated through diversion of funds outside borrowing units, and lack of interest or criminal neglect on the part of the borrowers as well as their partners.

Frauds also take place due to managerial failure leading to the unit becoming sick, and lack of effective supervision by NBFC functionaries over operations in borrower accounts, thus leading to difficulty in recovery of the advance.

Currently, all non-deposit taking NBFCs with asset size of ₹ 100 crore and above, as well as deposit taking NBFCs, have to disclose the amount related to frauds reported by the company for the year, in their balance sheets.

NBFCs failing to report fraud cases to the Reserve Bank will be liable to penal action.

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