

RBI's New NBFC Rules: Increased Disclosures May Help Reduce Investor Risk

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The collapse of Infrastructure Leasing and Financial Services and the subsequent fallout on non-bank lenders caught many investors off-guard. Not only had these firms been billed as high-growth opportunities but also as a low-risk option for investors.

The crisis, however, revealed a series of hidden risks beginning with poor liquidity management in some cases.

The Reserve Bank of India is now hoping to correct this by prescribing rules for liquidity management but also far more detailed disclosure requirements for non-banking financial companies and core investment companies.

In draft rules released on Friday, the RBI said that the following items must be disclosed by deposit-taking NBFCs and non-bank lenders with assets of over Rs 5000 crore:

- Funding Concentration based on significant counterparty
- Top 20 large deposits (amount and percentage of total deposits)
- Top 10 borrowings (amount and percentage of total borrowings)
- Funding concentration based on significant instrument/products
- Ratio of commercial paper, non-convertible debentures and other short term liabilities to total liabilities

The disclosures will make it easier for investors and financiers to differentiate between different NBFCs and prevent mis-perceptions, said Gagan Banga, vice chairman of Indiabulls Housing Finance in an interview with BloombergQuint. The strengthened disclosure norms will be an extremely important input into the structural stability of the sector, Banga said.

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