

RBI wants NBFCs to adopt better tools to detect liquidity strains early on

By: PTI

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Reserve Bank on Monday asked the already fund-starved NBFCs to adopt better risk monitoring tools that capture the strains early on and also to maintain a liquidity buffer as per the mandated liquidity coverage ratio. The regulator also wants the shadow banks to monitor their liquidity risks based on a stock approach to liquidity. The new norms will be applicable to all non-deposit taking NBFCs with an asset size of Rs 10,000 crore and above, and all deposit-taking NBFCs irrespective of their asset size and mandate them to maintain a liquidity buffer in terms their liquidity coverage ratio.

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“The monitoring tools shall cover concentration of funds by counterparty/instruments/currency and availability of unencumbered assets that can be used as collateral for fund raising,” RBI said in a notification titled ‘guidelines on liquidity risk management framework’. The proposed tools should also have certain early warning market-based indicators, such as book-to-equity ratio, coupon on debt raised, breaches and regulatory penalties for breaches in regulatory liquidity requirements.

The regulator further said monitoring shall be by way of predefined internal limits as decided by the board for various critical ratios pertaining to liquidity risks. It also asked NBFCs to segregate into granular buckets the 1-30-day time bucket in the statement of structural liquidity to 1-7, 8-14, and 15-30 days and ensure that their net cumulative negative mismatches in the maturity buckets of 1-7, 8-14, and 15-30 days shall not exceed 10, 10 and 20 percent respectively of the cumulative cash outflows in the given time buckets.

NBFCs are also expected to monitor their cumulative mismatches (running total) across all other time buckets up to one year by establishing internal prudential limits with the approval of the board, RBI said, adding stress-testing shall form an integral part of their overall governance and liquidity risk management culture.

“An NBFC should conduct stress-tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios,” the RBI said. NBFCs shall also formulate a contingency funding plan for responding to severe disruptions which might affect their ability to fund some or all of their activities in a timely manner and at a reasonable cost. The board shall have the overall responsibility for management of liquidity risks. The risk management committee, which reports to the board and comprising the CEO/MD and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk.

It said LCR will promote resilience of NBFCs to potential liquidity disruptions by ensuring that they have sufficient high quality liquid asset to survive any acute liquidity stress scenario lasting for 30 days. The stock of high quality liquid asset be maintained by the NBFCs shall be minimum of 100 per cent of total net cash outflows over the next 30 calendar days.

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