Our Response to RBI's Discussion paper on Revised Regulatory Framework for NBFCs - A Scale-Based Approach, 2021

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The Reserve Bank of India (RBI) released a Discussion Paper on **Revised Regulatory Framework for NBFCs- A Scale-Based Approach** (henceforth referred to as the discussion paper) for public comments. This note provides our response to it.

The discussion paper provides a rich background to the evolution of RBI's approach to regulating private non-banking corporate entities. However, it stops short of laying out the exact role that RBI envisages Non-Banking Financial Companies (NBFCs) play in the financial ecosystem and using that to arrive at a conclusion on whether they need to be regulated and for what reasons/objectives. It also does not comprehensively consider/layout its vision for a comprehensive supervisory approach that can be delinked in part from the regulatory approach it wishes to adopt. In this document, we provide our responses to the questions posed in the discussion paper, and in doing so, attempt to provide our thoughts on these important gaps and issues.

Responses to questions posed in the discussion paper

Section 3.2: Principle of Proportionality in Regulation

A. Whether the triggers enumerated here adequately capture the basis for determining the degree of proportionality?

B. Whether there is a need to add any other or remove any of the triggers mentioned above?

Regulation of financial firms should be institution neutral and be based only on the specific financial function performed by the firm[1]. Along with size and risk perception, the discussion paper proposes that the activity of NBFCs also be a trigger for regulation. In the discussion paper, 'activity' is described in terms of a combination of a) nature of operations (for instance, Type I NBFCs do not have market borrowings), and/or b) type of product being offered (for instance, housing finance), and/or c) whether credit risks sit on the NBFC's books or not. Doing so creates a set of issues as the underlying mix of asset classes that each NBFC serves is prone to change[2] over time, and these encompass different types of risks, including market risks and operating risks. This could lead to pervasive or systemic regulatory arbitrage. For instance, an NBFC-ICC could have its entire portfolio containing only microfinance loans. However, under the approach proposed in the discussion paper, it will still be subject to prudential regulations as applicable to NBFC-ICC and not NBFC-MFI.

Hence, there is a need to rethink the definition of activities as a trigger. We recommend that the triggers for proportionality in regulation be based only on the risk-profile and size, i.e., that the RBI apply a risk-based approach to deciding proportionality.

However, the RBI may not be fully ready to implement a risk-based approach to determining proportionality in regulation due to the lack of information on the many NBFCs in the country and the costs involved vis-à-vis benefits. Hence, as an interim measure, a scale-based approach that is based on size, and beyond a specific size, on the risk posed by the NBFC may be considered. Such an approach is articulated in Section C.2 of our Position Paper on [Regulatory and Supervisory Approaches for NBFCs](). This is also reproduced in our response in this note to the questions posed under Section 4.2.3: Structure of Regulatory Framework (Table C).

[1] See Chapter 2.1, *Report of the FSLRC, Vol. I: Analysis and Recommendations,* 2013. Accessible at https://dea.gov.in/sites/default/files/fslrc_report_vol1_1.pdf

[2] This is not a bad outcome. Such flexibilities to change lines of business are a core design element of the NBFC construct.

Section 3.3: Introducing Scale-Based Framework

A. Whether the layers in the regulatory pyramid capture the calibrated classification of NBFCs based on their likely systemic impact?

A consistent approach needs to be followed in determining the potential contribution to systemic risk and impact. The regulatory pyramid uses both size and activity of NBFCs to classify them based on their expected systemic impact. While it is evident that size is correlated with systemic impact, it is unclear how and which activities by NBFCs contribute to it. Additionally, classification by activity is subjective in nature and thus does not lend itself to a quantitative scale-based approach. In Table 1, Section C.2 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs, we present a scale based regulatory framework that is consistently applied to all NBFCs and classifies them according to their likely systemic impact. Hence, we recommend that such an approach be considered, rather than using the criteria laid out in the discussion paper (particularly the use of 'activities' as a criterion for classification).

B. Is the activity-based classification of NBFC-AA, P2P, NOFHC in Lower Layer and NBFC-HFC, IFC, IDF, CIC and SPDs in Middle Layer justified?

Regulating based on NBFC-categories/activities is problematic as the mix of lending activities of each NBFC may change over time and could encompass different financial functions entailing different types of risks. A regulatory framework based on NBFC-types (i.e., the types of financial activities), like the classifications in the Middle and Lower layers, could lead to regulatory arbitrage. For instance, classifying a small HFC under NBFC-ML would amount to regulatory overreach, while a large NBFC-P2P intermediating an AUM of Rs.10,000 cr would fall outside of the NBFC-BL category. In Section C.2 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs, we recommend a scale based regulatory framework that can be consistently applied to all NBFCs.

Section 3.5.2: Methodology for Identification of NBFCs in Upper Layer

A. Is the scoring methodology for the quantitative and qualitative parameters adequate to identify NBFCs which have systemic significance?

The approach proposed in the discussion paper incorporates most indicators which are pivotal in estimating the systemic significance of an NBFC. Notably, the indicators proposed in the discussion paper are more exhaustive that the indicators the RBI uses to identify Domestic-Systemically Important Banks (D-SIB)[3] and will serve well to identify systemically significant NBFCs (SS-NBFC). However, a few key aspects are either missing in the discussion paper or have been designated as qualitative aspects. For instance,

1. Substitutability of an NBFC must be measured to ensure that the needs of the real sector stay serviced in case the NBFC fails. Presently, the discussion paper relegates the theme to a qualitative assessment, and this has several pitfalls (these are discussed later). Further, several quantitative indicators must also be included to assess the substitutability of an NBFC, like the following:
    - *a.* Segment and geography wise concentration of assets (and their growth) is helpful in measuring *the importance of the NBFC as a source of credit to a specific segment or area.* While the discussion paper proposes such factors to be considered, it is left undefined as a qualitative indicator. We propose in Section C.4 of our Position Paper

[3] See: *Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)* (RBI, 2014); accessible at: https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2861

on Regulatory and Supervisory Approaches for NBFCs that the aforementioned *quantitative* indicator be employed to measure substitutability.

b. BC operations of the NBFC is pivotal in estimating the substitutability of an NBFC in any given geography, especially if the NBFC is servicing low-income households in remote geographies and are therefore acting as the bridge between such households and various social protection schemes. Thus, capturing BC operations of the NBFCs, would further help RBI measure *the importance of the NBFC as not only a source of credit to a specific segment or area, but also of additional services.*

c. Assets Being Serviced by an NBFC after such assets are either securitised or directly assigned, is an important measure of understanding the impact of the NBFC's failure on the holders of the assets. Thus, incorporating the proposed indicator would help the RBI measure the systemic impact of the failure of such NBFCs.

2. Liquidity and Maturity Mismatch: The discussion paper incorporated several measures of liquidity and maturity mismatch in Sl. 4 of Table titled "*Components of the proposed parametric analysis*"[4]. However, since these indicators are envisaged as qualitative indicators, there may arise issues of non-uniformity of the approach adopted to capture them. Further, since the indicators are inherently quantitative and do not require any qualitative judgement in construction, it would be prudent to include these indicators as quantitative indicators rather than qualitative indicators.

3. Lack of data on counterparties: The proposed framework does not incorporate any indicators that capture the strength, nature, and number of counterparties for each NBFC. Such data would allow the RBI to measure not only the primary touchpoint(s) of the contagion risk, but also the capacity of the touchpoints to contain/mitigate the risks transmitted by the NBFC. To exemplify, since banks are the major lenders to NBFCs, a well-capitalised bank would be able to contain the risks of its counterparty NBFC failing, whereas poorly capitalised banks may be unable to contain such risk. Hence, since the goal of this classification exercise is to identify NBFCs with systemic significance, data on counterparties must be included to measure the strength of the counterparties. Such data on counterparties may be directly sought from banks. Finally, there is also international precedence for such an indicator as the US Financial Stability Oversight Council (FSOC) already captures such data.

Section C.4 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs presents a list of all indicators that are essential in estimating the systemic significance of an NBFC, and this is reproduced below, along with an international comparison (on whether such indicators are being used and/or proposed internationally).

[4] See: Table titled *"Components of the proposed parametric analysis", p. 20,* of *the discussion paper*

Table A: Our Proposal for a Framework for Identification of Systemically Significant NBFC

Theme	Indicator Proposed by Dvara Research	Currently Proposed/Employed by:				
		BCBS (for G-SIBs)	RBI (for D-SIBs)	FSOC (for regulating non-bank finance companies)	PRA (all non-bank credit institutions)	EBA (for globally important non-bank credit institutions)
Size & Leverage	Domestic On-Balance Sheet Assets	✓	✓	✓	✓	✓
	Domestic Off-Balance Sheet Exposures	✓	✓	✓	✓	✓
	Global On-Balance Sheet Assets	✓	✓	✓	✓	✓
	Global Off-Balance Sheet Exposures	✓	✓	✓	✓	✓
	Risk-Weighted Assets	×	×	✓	×	×
	CRAR	×	×	✓	×	×
	Leverage	×	×	✓	×	×
Liquidity and Maturity Mismatch	Liquidity Coverage (across different time horizons)	×	×	✓	×	×
	Callable debt as a fraction of total debt	×	×	✓	×	×
	Asset-backed funding versus other funding	×	×	✓	×	×
	Asset-liability duration and gap analysis	×	×	✓	×	×
	Short-term debt as a percentage of total debt	×	×	✓	×	×
	Short-term debt as a percentage of total assets	×	×	✓	×	×
Interconnectedness	Intra financial system assets	✓	✓	✓	✓	✓
	Intra financial system liabilities (split by type of liability)	✓	✓	✓	✓	✓
	Securities outstanding (split by type)	✓	✓	✓	✓	✓
	line of credit from financial institutions (including undrawn committed lines)	×	×	✓	×	×
	OTC derivatives with FIs as counterparties	×	×	✓	×	×
	Total Debt Outstanding	×	×	✓	×	×
	Number, Size, Nature of Relationship, and Strength of Counterparties (Banks & Insurers)[5]	×	×	Partially	×	×
Substitutability	Segment and geography wise concentration of assets (to measure market dominance[6])	×	×	✓	×	×
	Number of banks for which the NBFC is a BC (segment and geography wise)	×	×	×	×	×

[5] Banks and insurers are especially considered since the institutions, unlike say an AMC offering mutual funds, aren't bankruptcy remote.

[6] Market dominance of an NBFC may be measured by computing saturation measures, like the Herfindahl–Hirschman Index (HHI) across sectors (or asset classes, as the case may be) and geographies.

	Assets being Serviced[7]	×	×	×	×	×
Complexity	The notional amount of OTC derivatives	✓	✓	×	×	✓
	Number of JVs/Subsidiaries/Group Companies in the financial sector and exposures thereto	×	×	Partially	×	×
	Trading and available-for-sale securities	✓	✓	✓	×	×

The approach to identifying systemically significant NBFCs is expected to become more holistic when the discussed features and indicators are also incorporated.

B. Are there any suggestions on weights assigned to different parameters?

As discussed in section C.4 of our Position Paper on [Regulatory and Supervisory Approaches for NBFCs](), the present methodologies used internationally assign uniform but arbitrary weights to each category, i.e., each category (size, interconnectedness, complexity, etc.) has equal weights, but without any empirical research supporting the weights. These weights are then sub-divided uniformly across the categories' component indicators. Since most jurisdictions seem to follow this approach for assigning weights, the RBI may follow the uniform weights approach, instead of assigning differential weights, as proposed in the discussion paper.

Ideally, an empirical study of various institutions that have failed and have had a systemic impact over the years should be conducted to derive appropriate weights for each indicator. If the proposed weights in the discussion paper are derived from such an exercise, or similar statistical exercises, it would be ideal to make the methodology public so that a more informed discussion is feasible. However, assuming such an exercise was not conducted, it is proposed that the RBI conduct such a study and then derive the appropriate weights.

Finally, it is also possible for the RBI to use both approaches simultaneously. The RBI may assess every NBFC according to the framework having statistically derived weights, and at the same time using the uniform weights approach (as deployed by most regulators, whereunder all themes are assigned equal weights) for the determination of the NBFCs' status as SS-NBFC. Then, an NBFC should be designated as systemically significant if it qualifies under either of the approaches. Thus, ideally, statistically derived weights should be assigned to different parameters along with the international approach of uniform weights.

Section 3.5.3: Selection of Sample for Identification of NBFCs in Upper Layer

A. Whether the sample of the top 50 NBFCs is appropriate or NBFCs above a certain specified asset size threshold should constitute the sample?

As discussed in section C.4 of our Position Paper on [Regulatory and Supervisory Approaches for NBFCs](), a threshold may be set beyond which all NBFCs are adjudicated for their systemic significance. Ideally, such a threshold would be decided through rigorous statistical exercises (for instance, like break-point analysis) to mitigate arbitrariness arising from a randomly selected number of NBFCs. However, due to the current lack of availability of data, such an exercise is prohibitive.

It is therefore proposed that all NBFCs who have assets over Rs. 5,000 cr are assessed for systemic significance (Section C.2 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs).

[7] Most Frameworks, including the FSOC framework consider "assets under custody" while measuring the substitutability of an institution. However, given the contexts of NBFCs in India, we propose the usage of the indicator "assets being serviced".

This threshold would thus include all NBFC-MLs (or Medium NBFCs, i.e., NBFCs with assets > Rs.5,000 cr under the definition we propose in section C.2 of our Position) and not just the top 50 NBFCs.

Instead of selecting a sample of the top 50 NBFCs, as proposed in the discussion paper, inclusion of all NBFCs with assets above RS. 5,000 cr would also minimise arbitrariness, since the difference in size or complexity between the 50th largest and 51st largest NBFC may be insignificant. Further, it must also be noted that the RBI is well-positioned to assess the emergent 102 NBFCs (instead of 50 NBFCs as proposed in the discussion paper) since most of the indicators discussed above are already being captured by the RBI robustly. In case certain indicators are not being captured, even then, due to the annual nature of the exercise, compliance cost incurred by NBFCs will be minimal.

Thus, to avoid misclassification errors that could result in systemic fragility, it would be prudent to assess all NBFCs with assets over RS. 5,000 cr to identify any that are systemically significant.

Section 3.6: Implementation Plan

A. Suitability of implementation plan, especially on maximum timeline suggested.

The implementation plan proposed in the discussion paper presents two crucial timelines for NBFCs in the ML category that are reclassified into the UL category. The first timeline spanning 8 weeks, afforded to the NBFCs, appears to be adequate for their boards to chart out and approve a policy towards the adoption of the enhanced regulatory framework.

The second timeline of 18 months, whereunder the NBFC must comply with the framework, will need to take into consideration the time needed to upgrade supervisory processes of the RBI for medium NBFCs and SS-NBFCs. While this is a crucial component to succeed in implementing the overall approach well, this is not covered in the discussion paper.

We propose in C.3 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs, a scale-based approach to off-site supervision of NBFCs. This has four broad categories or profiles along which NBFCs may be required to report to the RBI, namely, capital adequacy, asset/liability, operations and credit activities[8] of the NBFC. This is reproduced below in Table 2.

[8] For a full discussion on this theme, see D.Bhattacharya, A.Neelam, D.George (2021, March 15). *A framework for Detecting Over-Indebtedness and Monitoring Indian Credit Markets.* Retrieved from Dvara Research: https://www.dvara.com/research/wp-content/uploads/2021/03/A-Framework-for-Detecting-Over-indebtedness-and-Monitoring-Indian-Credit-Markets.pdf

Table B: Our Proposal for a Scale-Based Approach to Off-Site Supervision of NBFCs

<table>
<tr><th rowspan="2">Type of Data</th><th rowspan="2">Reporting Requirements</th><th colspan="5">Reporting Frequency for:</th></tr>
<tr><th>ND-NBFC Small (<Rs.5000cr)</th><th>ND-NBFC Medium (>Rs.5000cr, <Rs.50000cr)</th><th>Medium or Large ND-NBFCs identified as SS-NBFC (through risk-based framework in Section C.4) and all D-NBFCs</th><th>ND-NBFC Large (SS-NBFCs >Rs.50000cr) who choose not to convert to bank</th><th>Banks (Extant Requirement)</th></tr>
<tr><td rowspan="6">A. Capital Adequacy Profile</td><td>CRAR</td><td>Yearly</td><td rowspan="3">Quarterly</td><td rowspan="3">Quarterly</td><td rowspan="3">Monthly</td><td>Quarterly</td></tr>
<tr><td>Tier I</td><td>Yearly</td><td>Quarterly</td></tr>
<tr><td>Risk Weighted Assets</td><td>Yearly</td><td>Quarterly</td></tr>
<tr><td>Basel III Disclosures (Public Disclosures)</td><td>Not Applicable</td><td>Yearly</td><td>Half-Yearly</td><td>Quarterly</td><td>Quarterly and Yearly</td></tr>
<tr><td>Details of Shareholders</td><td>Yearly, in addition to MCA Filing</td><td>Half-Yearly</td><td>Quarterly</td><td>Quarterly</td><td>Variable (Quarterly-Yearly)</td></tr>
<tr><td>ICAAP</td><td>NA</td><td>NA</td><td>Yearly</td><td>Yearly</td><td>Yearly</td></tr>
<tr><td rowspan="6">B. Asset/ Liability Profile</td><td>Asset concentration – Advances to top 20 borrowers</td><td rowspan="6">Half-Yearly</td><td>Quarterly</td><td rowspan="6">Quarterly</td><td rowspan="6">Monthly</td><td>Quarterly</td></tr>
<tr><td>Liability Concentration – Top 20 lenders (split by instrument)</td><td>Quarterly</td><td>Not Applicable</td></tr>
<tr><td>NPAs, Movement of NPAs, and similar Data</td><td>Quarterly</td><td>Quarterly</td></tr>
<tr><td>Maturity Pattern of Assets</td><td>Quarterly</td><td>Variable (Fortnightly-Quarterly)</td></tr>
<tr><td>Maturity Pattern of Liabilities</td><td>Quarterly</td><td>Variable (Fortnightly-Quarterly)</td></tr>
<tr><td>Liquidity Coverage and Interest Rate Sensitivity</td><td>Half-Yearly</td><td>Variable (Fortnightly-Quarterly)</td></tr>
<tr><td rowspan="4">C. Operations Profile</td><td>Branch level details (Name and address of the branch, contact details, etc.)</td><td colspan="4">Half-Yearly (with updates within 7 days in case of a change)</td><td>Quarterly</td></tr>
<tr><td>Details of Securitisation Transactions/DAs</td><td>Half-Yearly</td><td>Quarterly</td><td>Monthly</td><td>Monthly</td><td>Quarterly</td></tr>
<tr><td>Details of New Issuances (Debt/Equity)</td><td>Within 30 days of Transaction</td><td>Within 30 days of Transaction</td><td>Within 7 days of Transaction</td><td>Within 7 days of Transaction</td><td>Within 7 days of Transaction</td></tr>
<tr><td>Complaints to internal redressal</td><td>Quarterly</td><td colspan="3">Monthly</td><td>Variable (Monthly-</td></tr>
</table>

	team/ombuds, etc.			**Quarterly, depending on instrument, type of institution, etc.)**
D. Credit Activities Profile	Assets in each geography	**Quarterly**	**Monthly**	**Quarterly**
	Assets in each asset class			**Quarterly**
	Fresh Disbursement			**Not Available**
	Debt serviceability of borrowers			
	Instances of Multiple Lending			
	Insolvency and bankruptcy cases			

Thus, the 18-month timeline proposed in the discussion paper may need to be suitably altered to encompass the time needed for implementation of supervisory processes and enhanced supervisory returns filing by NBFCs.

Section 4.2.3: Structure of Regulatory Framework

A. Is the threshold of ₹ 1000 crore a correct identifier for NBFC-BL?

Section 4.4: Structure and Regulatory Framework for NBFCs in Upper Layer

A. Capital Regulation: In addition to leverage and differential standard asset provisioning, should any other tool be prescribed?

Combining the two questions above, we present below an alternative regulatory framework for RBI's consideration.

The FSLRC advocates for micro-prudential regulation of financial firms to be based only on the financial function performed by the firm[9] and thus be institution-neutral. However, this principle has not been followed in the regulation of NBFCs. For instance, both NBFC-MFIs and non-deposit taking NBFC-ICCs (investment and credit companies) perform the same financial function[10] of giving credit while accessing wholesale funding. To that extent, the prudential regulations applicable to both sets of firms need to be similar, but in reality, there are differences. Similarly, we find that the definition of public funds is such that non-deposit-taking NBFCs, whose entire liabilities consist of only bank finance and other wholesale liabilities, becoming regulated on par with deposit-taking NBFCs. This is redundant as banks themselves are regulated due to their deposit-taking function, and so are other regulated institutional investors such as insurance companies. This is also inconsistent with the principle that entities should be regulated only based on the financial functions performed by them, since D-NBFCs, in addition to giving credit (an activity that ND-NBFCs engage in), also accept public deposits from unsophisticated retail depositors (even if they are term deposits) and are thus qualitatively different from ND-NBFCs. Thus, to ensure consistency in regulation, RBI needs to constrain its definition of public funds to include only funds received directly from retail depositors. While the type of

[9] See section 2.1, *Report of the FSLRC, Vol. I: Analysis and Recommendations,* 2013. Accessible at https://dea.gov.in/sites/default/files/fslrc_report_vol1_1.pdf

[10] Despite one giving unsecured loans

regulations applicable on an NBFC should be based on the financial functions performed by it, the level of regulation should be based on the size and risk profile of the NBFC (and not the activity it is engaged in, as discussed in our response to questions in Section 3.2).

RBI should consistently apply a set of risk-based parameters, for instance - size, leverage, interconnectedness, across all NBFCs and arrive at a consolidated score which would determine the level of regulation applicable to it.

In an ideal setting, any NBFC which is entirely financed by wholesale liabilities should not be subject to prudential regulations. If any such NBFC becomes systemically significant, it should be mandated to bring down its risk profile (either through originating lower-risk credit or holding much higher levels of capital adequacy cushions) or convert to a bank, either a full service or a wholesale bank (as envisaged by the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (Chair: Dr. Nachiket Mor). This would enable RBI to better regulate the activities of systemically significant NBFCs and reduce their systemic risk by providing access to facilities like LOLR.

However, we recognise that the above scenario depends entirely on market discipline for the effective regulation of NBFCs. Given the realities of information asymmetry, co-ordination problems and market power[11], it is not desirable to entirely depend on market discipline and thus exempt NBFCs, even those completely financed by regulated financial institutions and other wholesale capital providers, from prudential regulation. As an intermediate solution (till an ideal can be reached), we propose the following scale-based regulatory framework that the RBI could consider for further examination in Table C.

Table C: Our Proposal for a Scale Based Regulatory Framework

Regulation	ND-NBFC Small (<Rs.5000cr)	ND-NBFC Medium (>Rs.5000cr <Rs.50000cr)	Medium ND-NBFC identified as SS-NBFC (through risk-based framework in Section C.4) and all D-NBFCs	ND-NBFC Large (SS-NBFCs >Rs.50000 cr) who choose not to convert to a bank	Universal Banks
Micro-prudential Regulations[12]					
Entry level capital	Rs. 20 cr				Rs. 500 cr
Minimum CRAR[13]	NA	9% for credit risk under Basel I	15% for credit, market, and ops risk under Basel III	24% for credit, market, and ops risk under Basel III	9% for credit, market, and ops risk under Basel III
Tier I as % of Tier I and II[14]	NA	NA	>=50%	>=50%	Min Tier I – 7%

[11] See Chapter 6.1, *Report of the FSLRC, Vol. I: Analysis and Recommendations,* 2013. Accessible at https://dea.gov.in/sites/default/files/fslrc_report_vol1_1.pdf

[12] Not applicable on P2P-NBFCs and Account Aggregator-NBFCs as they do not hold credit risks on their books.

[13] Section 4.2.2, Master Circular on Basel III Capital Regulations, 2015

[14] Section 4.2.2 Master Circular on Basel III Capital Regulations, 2015

Risk Weights[15]	NA	Differential risk weights of Basel II	Differential risk weights of Basel II	Differential risk weights of Basel II	Differential risk weights of Basel III
Maximum Leverage (outside liabilities/ equity)[16]	NA	NA	7 times	7 times	Minimum of 4% for DSIBs and 3.5% for other banks (Equity/asset size)
Credit Concentration[17]	NA	As a % of eligible capital base	As a % of the eligible capital base	As a % of the eligible capital base	As a % of the eligible capital base
Liquidity[18]	NA	Extant LCR guidelines for NBFCs	Extant LCR guidelines for NBFCs	Extant LCR guidelines for NBFCs	LCR and NSFR apply
CCB[19]	NA	NA	NA	NA	CCB applies
ICAAP[20]	NA	NA	Yearly	Yearly	Yearly
IT system with minimum functionalities[21]	Mandatory for all NBFCs and Banks				
Universal Institutional Conduct Regulations[22]					
Universal Institutional Conduct rules for activities undertaken	Rules in relation to credit provision uniformly applicable on all NBFCs and Banks				

In our regulatory framework, we propose a tiered regulation of ND-NBFCs based on asset size, with the stringency of regulations increasing with the size of the NBFC. Considering the size of the banking system and the size of NBFCs in India, we propose that rather than Rs.1,000 cr, Rs.5,000 cr be chosen as a cut-off for identifying small ND-NBFCs who must then be kept out of the purview of capital regulations. Such a size-based cut-off must be applied to all NBFCs irrespective of the nature of their lending activities.

Also, for ND-NBFCs having asset size between Rs. 5,000 cr and Rs. 50,000 cr, we propose a classification framework to estimate the systemic significance of these NBFCs and apply regulations whose stringency is between Medium and Large NBFCs. The underlying principle here is that as size

[15] Master Circular on Basel III Capital Regulations, 2015
[16] Basel III Capital Regulations- Implementation of Leverage Ratio, 2019
[17] Section 13.6 Master Circular on Basel III Capital Regulations, 2015
[18] Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines, 2018 and Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards, 2014
[19] Section 15, Master Circular on Basel III Capital Regulations, 2015
[20] Section 10, Master Circular on Basel III Capital Regulations, 2015
[21] RBI should prescribe minimum functionalities that the IT systems must possess and NBFCs must be free to decide what systems and what modules would work best for their requirements. RBI must not mandate the type of system per say (for instance, whether it should be a loan management system or a core banking system)
[22] Applicable on P2P-NBFCs and AA-NBFCs also if they have a retail customer interface

and systemic significance of ND-NBFCs increase, the contagion risk due to them becomes significant, and their failure would result in the substantial loss of capital for other players in the financial system. To that extent, SS-NBFCs need to have additional capital, as reflected in the proposed framework. The framework for identification of SS-NBFCs is discussed in greater detail in Section C.4 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs. We also recognise that D-NBFCs should be regulated as SS-NBFCs due to the retail deposit-taking functions performed by them. ND-NBFCs with asset size greater than Rs.50,000 cr should ideally be converted into a full-service or a wholesale bank. Those NBFCs which do not want to convert are subject to prudential regulations similar to banks. In addition to their systemic importance, the regulations applicable to these NBFCs have been made similar to banks to enable their transition to full-service or wholesale banks in a seamless manner.

However, conduct regulations must be uniformly applied to all NBFCs (and banks) if they have lending operations, including on P2P-NBFCs and AA-NBFCs who do not borrow or have a liabilities book. Currently, the RBI's Charter of Customer Rights is applicable only to banks. The fair practice codes for both banks and NBFCs need to be streamlined into one single code such that it would become uniformly applicable to any entity that is interfacing with a customer (including on outsourcing partners and BCs). Such a code can have as its elements, the ten obligations[23] listed below:

1. Obligation to act with professional diligence
2. Obligation of fiduciary responsibility
3. Obligation of suitability
4. Obligation of aligned incentive design
5. Obligation to avoid and manage conflict of interest
6. Obligation to ensure customer data protection
7. Obligation to disclose relevant information
8. Obligation to ensure capabilities through training
9. Obligation to have technological capabilities
10. Obligation to maintain effective grievance redress

The RBI must then evolve a comprehensive regulatory, supervisory, and enforcement strategy to hold both banks and NBFCs accountable to such a code.

Section 4.2.3: Structure of Regulatory Framework

B. Are there any suggestions on the disclosure framework for NBFCs-BL?

The discussion paper states that 'the disclosure requirements for NBFCs-BL will be widened by including disclosures on types of exposure, related party transactions, customer complaints, etc'. This is a step in the right direction and is expected to increase the level of transparency in the system. It is, however, unclear whether these are to be public disclosures (in financial statements submitted to the Registrar of Companies or to be placed on the company website) or whether they are to be covered in the returns filed with the RBI.

We submit that supervisory returns filed by NBFCs to the RBI must include more granular and exhaustive data to enable the RBI to monitor the credit markets robustly (of banks and NBFCs), and to detect pockets of over-indebtedness, if any. Table B in this note (reproduced from Section C.3 of our Position Paper on the Regulatory and Supervisory Approaches for NBFCs) provides a set of

[23] George, D. (2019, May 7). *Universal Conduct Obligations for Financial Services Providers Serving Retail Customers.* Retrieved from Dvara Research: https://www.dvara.com/research/wp-content/uploads/2019/05/Universal-Conduct-Obligations-for-Financial-Services-Providers-Serving-Retail-Customers.pdf

reporting requirements that can be considered in this regard from NBFCs-BL (or as per our framing, Small NBFCs with asset size < Rs.5,000 cr).

However, we argue that D-NBFCs are a special case of NBFCs since these entities have permissions to access retail public deposits. Therefore, we recommend that public disclosures by D-NBFCs be brought at par with that for corporates issuing listed debentures, as laid out by the Securities and Exchange Board of India (SEBI). This is so that the degree of transparency available to retail investors of listed debt becomes available to retail depositors in any non-bank institution, and any artificial distinctions in regulatory disclosures of term deposits and listed debentures arising from the fact that deposits are not securities can be removed.

- SEBI's disclosure requirements go beyond just annual report and financial statements and include disclosures like Memorandum of Association, utilisation of issue proceeds, material events as and when they happen[24].
- SEBI requires companies with listed debt to publish their financial results every quarter[25]. These disclosure items are missing in RBI's public disclosure regime for D-NBFCs[26]. Thus, for instance, depositors might not know the end use of their deposit funds, but investors in listed NCDs at least receive a statement on the utilisation of their funds in the offer document.
- SEBI specifies the mechanism through which information is to reach the investors – through the stock exchange or direct dissemination to the security holders[27]. This articulation is missing in the RBI regime, i.e., there is no explicit mandate by RBI that D-NBFCs should ensure the proper dissemination of information to their depositors.

C. Feedback on the proposed minimum NOF and the transition timelines.

We believe that the proposal by RBI to increase the minimum NOF to Rs.20 cr is reasonable, to ensure that prospective entities have the wherewithal to put into place necessary IT systems, including systems that can enable good quality automated supervisory reporting to the RBI, as articulated in Table B of this document. There will be small NBFCs for whom capital requirements will not apply. However, they too must be required to report to the RBI on their credit activities so that RBI becomes equipped to comprehensively monitor credit markets in the economy.

Regarding the timeline, the RBI is better positioned to understand the market dynamics and can in consultation with market participants, determine the transition timelines.

D. Feedback on harmonization of NPA norms.

The proposal to harmonise the NPA classification norms is in sync with the objective of minimising arbitrage between entity types on how NPAs are recognised and will therefore be a welcome development. The proposal also incorporates partly the recommendations by the RBI Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (CCFS) (Chairperson: Dr. Nachiket Mor, 2013)[28]. However, going forward, it may be prudent to incorporate

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[24] Schedule 1 of SEBI *Issue and Listing of Debt Securities Regulations*, 2008 and Chapter 2 of SEBI *Listing Obligations and Disclosure Requirements* Regulations, 2015
[25] Section 33 of SEBI *Listing Obligations and Disclosure Requirements* Regulations, 2015
[26] *Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company Directions*, RBI, 2016
[27] SEBI *Listing Obligations and Disclosure Requirements* Regulations, 2015
[28] See recommendations 4.3 and 4.21 of the Report of the RBI Comprehensive Financial Services for Small Businesses and Low-Income Households (Chairperson: Dr. Nachiket Mor, 2013); accessible at: https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/CFS070114RFL.pdf

the complete recommendation, since every asset class will behave differently, given their differential business cycles. Therefore, ideally, NBFCs (and banks) should be allowed to recognise NPAs only after the completion of the business cycles associated with the asset class. The recommendation, especially pertaining to the NBFC sector, as present in the CCFS report, is reproduced below:

> *In a manner similar to banks, different customer-asset combinations behave very differently from each other and it is recommended that the regulator specify NPA recognition and provisioning rules, including for standard assets, at the level of each asset-class and require that all NBFCs conform to these mandates.* (Recommendation 4.21 of CCFS)

E. Specific regulatory concessions to Type I NBFC.

It is unclear what the nature of activities of Type I NBFCs are given that they do not raise debt (including deposits) nor take loans, and they do not have a customer interface. Neither AA-NBFCs nor P2P-NBFCs qualify as Type I NBFCs. It is also unclear how many such NBFCs are registered with the RBI, why they chose to register with the RBI, and what their asset sizes are. If there are NBFCs that qualify as SS-NBFC, given their size and risk profile, they will need to be brought under the RBI framework for SS-NBFCs. Given only RBI has access to the information needed to make this decision, we believe the RBI is best placed to make this decision.

Section 4.3.4: Other Areas of Arbitrage

A. Are the proposed capital requirements adequate to take care of loss absorbency in the NBFCs?

On the question posed in the discussion paper on whether the proposed capital requirements are adequate to take care of loss absorbency in the NBFCs, it would be difficult for us to conclude anything definitively because the data on capital levels of various NBFCs across size and risk profiles is not available in the public domain to aid an exploratory exercise. An important step to enable the RBI to build this data would be to require enhanced supervisory returns from NBFCs as proposed in Table B of this note (on our proposal for a Scale-Based Approach to Off-Site Supervision of NBFCs).

B. ICAAP (Para 4.3.2.3) - The Reserve Bank would like to elicit views on pros and cons of the proposed ICAAP.

As discussed in section C.2 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs, it is appropriate to introduce ICAAP for those NBFCs that have been identified as SS-NBFCs, i.e., NBFCs that cross a threshold in terms of both size and risk profile as laid out in section C.4 of the said Position Paper.

C. Chief Compliance Officer (Para 4.3.3.2) - Should the role and responsibilities of CCOs be on similar lines as that of banks?

This is to be considered by the RBI only in the case of those NBFCs that warrant a treatment that is similar to how RBI would treat banks for supervisory purposes, i.e., SS-NBFCs.

D. Independent Directors (Para 4.3.3.4) - The Reserve Bank would like to elicit views on the proposal to restrict independent directors to be on the Board of not more than two NBFCs in the Middle and Upper Layers.

This would be a welcome move. The number of NBFCs with asset size of Rs.1,000 cr and above (or Rs. 5000 cr as per our proposal) are small, and hence there is a likelihood that many of these NBFCs would have similarities in their business model or compete in the same customer segments. In such an instance, allowing individuals to become independent directors in 2 or more NBFCs increases the likelihood that they may not be that independent anymore, either to the sector of NBFCs or to the entities themselves.

E. Disclosure Requirements (Para 4.3.3.5) - Whether any other measures are suggested to strengthen governance and disclosure requirements?

Public disclosures are relevant in the case of NBFCs that have listed equity and/or debt, and for D-NBFCs. These NBFCs have permissions to raise retail monies from the public and hence the need for public disclosures in order for these investors to make informed decisions about their investments. In addition to the disclosures proposed in the draft framework, RBI would need to address the following lacunae to strengthen the public disclosure regime of NBFCs[29]:

1. The current public disclosure regime applicable to NBFCs is not adequately transparent when it comes to disclosure of information on risk exposures. For instance, the disclosures on credit risk do not include information on total advances extended by economic sectors. The lack of such information acts as an impediment to understanding the exposure of the NBFC to different real sectors of the economy and the possible credit risk arising from such an exposure pattern.
2. NBFCs for whom IndAS is applicable fare better in terms of the transparency of their public disclosures. However, there are areas where RBI disclosures and disclosures under IndAS do not complement each other, resulting in informational blind spots. This is because, IndAS prescribes 'what' needs to be disclosed and leaves it to the judgement of the NBFCs to decide on 'how' they want to make the disclosures. For example, RBI's directions require NBFCs to disclose the absolute values of their exposures to capital markets and real estate sectors. Information on associated market risk and their expected impact on financial assets/ liabilities from volatility in factors such as interest rates and foreign exchange rates are missing. On the other hand, Ind AS requires NBFCs to disclose sensitivity analysis capturing the effects of reasonably probable changes in each type of market risk variable on the profit or loss account and equity of the NBFC. However, it leaves it to the discretion of the NBFCs to decide on the appropriate grouping/ categorisation of the information to be presented. Hence, the information presented through the two does not necessarily complement each other. While overly prescriptive mandates might tend to overlook idiosyncrasies in each NBFC's business, RBI can define a basic set of disclosures/ information categories to make them more comparable and reliable. This can also ensure that certain key information is mandatorily covered.

F. Sensitive Sector Exposure (Para 4.3.4.1) - Are the suggested changes adequate to contain risks from SSE?

We welcome the changes proposed by RBI on the dynamic vulnerability assessment and enhanced disclosures by NBFCs pertaining to sensitive sectors. However, the current definition of sensitive sectors as comprising only commercial real estate and capital markets is problematic for two reasons. One, different sectors of the economy can pose risks at different points in time, depending on the evolving fundamentals of each sector. Thus, restricting the definition of sensitive sectors to only capital markets and commercial real estate could create blind spots on the risks developing in the other sectors of the economy that the NBFC has exposure to. Two, it needs to be recognised that capital markets are only a conduit for NBFCs to gain exposure to various economic sectors and is not

[29] These and other issues in public disclosure regimes for banks and NBFCs will be covered extensively in a forthcoming paper by Dvara Research on the subject

by itself an economic sector. To illustrate, an NBFC could invest in securities of entities, through capital markets, that operate across economic sectors like automobiles, chemicals, consumer durables and so on. Ideally, RBI should allow each NBFC to determine the sectors to which it is most sensitive and mandate disclosures on it, including the dynamic vulnerability assessment. However, this could considerably reduce the comparability of these disclosures among NBFCs as the sectors and information being reported could vary across NBFCs. Instead, RBI should clearly define a basic set of economic sectors, which are mutually exclusive for which NBFCs can be required to disclose the relevant information.

For instance, RBI has defined four sectors along which banks have to report their exposures (agri, industries, services and personal loans). However, there can be overlaps between 'services' and 'industry' or even 'personal' and 'services' as loans to service micro-enterprises can be classified either under personal or under services. The RBI can do well to provide more precise definitions or lay these definitions in the public domain as well as require NBFCs to disclose relevant information along the lines of these sectoral categories.

G. Core Banking Solutions (Para 4.3.4.4) - Is the threshold of 10 branches optimal?

The discussion paper suggests mandating NBFCs with more than 10 branches to adopt Core Banking Solution (CBS) as part of their Information Technology (IT) infrastructure. The rationale presented is that implementation of CBS by banks has brought in significant benefits in terms of transparency, efficiency and reduction in instances of fraud. The objectives of ensuring transparency, efficiency and fraud reduction among NBFCs are legitimate and commendable goals for the RBI to pursue. However, in pursuing them, the RBI must avoid prescribing operational details of business decisions that the NBFC is best placed to make.

CBS is a transaction processing system (TPS) that connects all units (branches, ATMs, corporate office) and provides a system-wide view of all the transactions made by the entity. However, the CBS system is a standardised offering catering to various back-office operations of a bank, such as savings, deposits, clearing, payments, ATM and so on. Many of these modules contain functionalities that are not needed by or performed by NBFCs. Mandating such a system for NBFCs would not enable greater transparency or efficiency of their operations but only increase their cost of compliance. There exist other IT systems, like Loan Management Systems (LMS), which have modules more in line with the needs of NBFCs along with the required functionality to connect and reconcile transactions across all units of the NBFC and are therefore well-suited to address RBI's concerns around transparency and fraud. This system is also less expensive to implement than the CBS system. The argument here is not that RBI should mandate one system over another but rather that the decision on which system to adopt should be left to the NBFCs themselves as they are best placed to take the decision. Instead, RBI should outline the broad guidelines on the minimum functionalities that the IT infrastructure of an NBFC should have and/or conform to, like in the case of the Information Security (IS) framework for NBFCs[30]. These guidelines could cover aspects like security, flexibility, access control, data integrity and mobility of the IT system.

An indicative list of various features (separated as *essential* and *non-essential*/*nice to have*) across functional aspects that such a system(s) should have been given below:

[30] See section 3 of Master Direction – Information Technology Framework for the NBFC sector, RBI 2017

<table>
<tr><td colspan="2">For Loan Account Management:</td></tr>
<tr><td>Essential</td><td>Flexible Product definition: Flexible product definition is a key requirement, and the following are essential to offer this flexibility:
1. Computation methods (30/360, actual/actual, etc.)
2. Schedule definitions EM, Bullet, Principal schedules etc.
3. Interest, Penalty Fees and GST
Complete life cycle handling – Disbursement, Collection, Accrual, Penalty, Provisioning, Write-off, NPA, etc.
1. Loan Accounting- Automated handling of all accounting arising from various life cycle events
2. Document Generation
3. Invoice/SMS generation
4. Collections
5. ACH/PDC</td></tr>
<tr><td>Non-Essential</td><td>1. Co-Lending Capabilities
2. Digital Collections
3. E-Sign, E-NACH and E-Stamping capabilities</td></tr>
<tr><td colspan="2">For Branch Management</td></tr>
<tr><td>Essential</td><td>1. Cash Management capabilities
2. All branch cash transactions to be recorded, tracked, and accounted immediately
3. Cash Control measures like tallying physical cash
4. Inventory Management
5. Document Management</td></tr>
<tr><td colspan="2">For MIS, Analytical and Internal Audit functions</td></tr>
<tr><td>Essential</td><td>1. Standard Reports on PAR, POS, Disbursement, Submission to credit bureaus, and Collections
2. Potential integration of Data Warehouses (essential if the volume increases)
3. Basic analytical capabilities on demography, PAR/POS</td></tr>
<tr><td>Non-Essential</td><td>1. AI/ML-based modelling and credit decisioning
2. Automation/Digitisation of the entire audit process</td></tr>
<tr><td colspan="2">For Customer Self-Service Modules (depending on nature of business)</td></tr>
<tr><td>As required</td><td>1. Multi-channel origination
2. Digital collections and Loan Servicing</td></tr>
</table>

The discussion paper is considering a threshold of 10 branches above which to mandate a CBS for NBFCs. We have provided reasoning for why a CBS should not be mandated, but rather the TPS functionalities must be mandated. However, the use of branches is limiting as with increasing activities in the digital lending space, the choice of 'branch' as the single point of interface with the customer, whether retail or enterprise, is no longer valid. Instead, the RBI should mandate all NBFCs with any form of lending operations (other than intra-group lending) to have a transaction processing system. This would be pivotal in achieving the stated goals of transparency, efficiency and reduction in instances of fraud. Further, the system will enhance the ease of filing the additional supervisory returns that the RBI should consider mandating (as discussed in section C.3 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs).

In C.3 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs, we propose a scale-based approach to off-site supervision of NBFCs (this has been reproduced in Table B in this note). This comprises four broad categories or profiles along which supervisory returns can be required to be made, namely, capital adequacy, asset/liability, operations and credit activities of the NBFC. For the RBI to build enhanced in-house capabilities for monitoring credit markets, a key component would be regular reporting on credit market activities by all NBFCs involved in the lending business. Hence, the category of returns under 'credit activities profile' must be required to be reported by all NBFCs and not just NBFCs above a certain asset size.

Section 4.4: Structure and Regulatory Framework for NBFCs in Upper Layer

B. Credit Concentration: The Reserve Bank would like to elicit views on extending LEF to NBFCs in this Layer and specific adaptions needed.

We welcome the draft framework's proposal to extend the LEF to the NBFCs due to the high systemic risk posed by them. In addition to providing detailed guidelines on the scope of application, types of counterparties and exemptions, the LEF for banks includes regulatory reporting, which is not present in the extant NBFC credit concentration norms. We propose that the LEF be extended to SS-NBFCs and Large NBFCs, as defined in section C.2 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs.

C. Listing Requirements: The Reserve Bank would like to elicit views on the requirement of mandatory listing and the timeline to adhere to this requirement.

Mandatory listing for very large or systemically significant NBFCs (or UL NBFCs as described in the discussion paper) is premised on two outcomes as per the discussion paper: one, listing will ensure better corporate governance, and two, diffused ownership can reduce abuse of dominance. We presume that the RBI implies listing of equity in this proposal. On one, it is unclear why the RBI cannot directly require better corporate governance standards of these NBFCs, and on two, it is unclear whether listing will result in diffused ownership. It is also not very established that diffused ownership can necessarily result in a reduction in the abuse of dominance or better corporate governance.

Hence, we conclude that the first objective may be the primary objective for the proposal in the discussion paper to mandate equity listing, and that RBI is choosing to defer to SEBI's guidelines that will improve corporate governance through the process of listing. This is a welcome move.

D. Disclosure Requirements: Feedback on additional disclosure requirements to depict that the group structure is not complex and opaque.

It is unclear why such a rule must apply to NBFCs alone while not applicable to large non-financial corporates to whom the banking sector has significant exposures. If wholesale investors are expected to have the expertise to understand the implications of complex group structures of large corporates, the same should apply to NBFCs too. Hence, this proposal can be re-evaluated. Additionally, in the case of IL&FS induced crisis, the role of statutory auditors and rating agencies have been strongly implicated, in addition to the inadequate disclosures required to be made by listed companies. The regulatory and supervisory frameworks for external auditors and credit rating agencies need to be revamped, and the quality and frequency of the disclosure regime for financial statements and details of borrowings etc., need to be reviewed.

Section 4.6: Structural Arbitrage

Whether the extant structural arbitrage arising out of legislative foundation needs to be addressed in any specific area?

The discussion paper provides the following examples for structural arbitrage:

i) maintenance of CRR/ SLR by banks against demand and time liabilities,
ii) ceiling on voting rights of shareholders,
iii) prohibition of buying, selling and bartering of goods,
iv) prohibition in holding non-banking assets,

v) mandatory Board expertise,
vi) deposit insurance,
vii) the requirement to hold a certain percentage of assets in India, and
viii) restriction on investment in other companies.

We submit that banks and NBFCs are not the same institutions because banks are money creators in the economy, while NBFCs have permissions only to transmit this money created by banks. NBFCs are not in the business of collecting customer-deposits, unlike banks that carry out two distinct functions on a single balance sheet, namely taking demand deposit liabilities and making loans. Banks fund the loans they make by issuing deposits (or promises-to-pay in the official unit of account) that are treated by the wider community as money, not only as credit. They have, in effect, immediate purchasing power[31]. Banks, unlike all other intermediaries in the financial ecosystem, have two permissions, which, when made available together, make them distinct as 'money-creators'. There are two permissions that banks enjoy, as articulated by Werner 2014[32]; one, permission to classify their accounts payable liabilities arising from bank loan contracts as a different type of liability called 'customer deposits' (without drawing down balances elsewhere); and two, exemptions from Client Money Rules which frees them from having to segregate client money. NBFCs do not have the first permission and so are akin to any other corporate that lends, i.e., their accounts payable liabilities are met by drawing down on their cash balances sitting in a bank account and by crediting of the borrower's bank account. If banks had not enjoyed the first permission, and if their depositors decide to transfer their bank deposits to non-bank entities, they would have had to borrow from non-banks[33].

Hence the argument that NBFCs enjoy a structural arbitrage may not be valid as banks and NBFCs are not the same kinds of credit intermediaries, and NBFCs, including D-NBFCs[34], are not money/credit creators. Hence, this does not warrant that the RBI must be concerned about the risk profiles or size of the NBFC sector and require them to bring down their risk profiles (through capital requirements, for instance) to levels that are similar or higher than that applicable on banking entities. NBFCs are downstream entities to banks and serve to underwrite credit risks that banks cannot underwrite due to the low risk-profile they necessarily need to maintain given their money creation function in the economy (except in the case where NBFCs contribute to systemic risk due to the way they operate).

In the same vein, we suggest that non-SS-NBFCs must continue to be resolved under the IBC. Only SS-NBFCs must be brought under the Financial Resolution and Deposit Insurance (FRDI) Bill / Resolution Corporation (Section C.5 of our Position Paper on Regulatory and Supervisory Approaches for NBFCs).

[31] The 'money creation' view of banking, as articulated in the prompt for a roundtable on Banking: Intermediation or Money Creation. https://justmoney.org/roundtable-1-prompt/ . This view was also endorsed by the Bank of England in its Q1 2014 Bulletin, titled *Money Creation in the Modern Economy*, by Michael McLeay, Amar Radia and Ryland Thomas of the Bank's Monetary Analysis Directorate. Accessible at https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy

[32] See *How do banks create money, and why can other firms not do the same? An explanation for the coexistence of lending and deposit-taking.* Richard A. Werner, International Review of Financial Analysis, Volume 36, 2014, Pages 71-77, ISSN 1057-5219, https://doi.org/10.1016/j.irfa.2014.10.013

[33] *Banking: Intermediation or Money Creation: Endorsing the Money-creation View*. M. Lavoie, University of Ottawa, January 08, 2020, https://justmoney.org/endorsing-the-money-creation-view/

[34] D-NBFCs too, like ND-NBFCs lend by drawing down their cash balances.