Technical Guide on Audit of Non-Banking Financial Companies (Revised 2016)

The Institute of Chartered Accountants of India
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FOREWORD

The Indian financial sector is effectively serving the needs of economy by channelising savings towards productive purposes. Non-banking financial companies (NBFCs), an important constituent of the Indian financial sector, provide a range of products and services to the public. NBFCs cater to the funding requirements of various sectors including the organized sector, the unorganized sector like small scale industries, small entrepreneurs, self-employed, etc. NBFCs are playing an important role in Indian economy by bridging the funding requirements of people living in every nook and corner of the country.

Given the large quantum of public money handled by NBFCs and geographical spread of their client base, the Reserve Bank of India (RBI) has prescribed a strict regulatory regime for their registration and functioning. This includes detailed requirements for registration and a number of prudential guidelines to ensure proper functioning of NBFCs and protect the misuse of public funds by them. Statutory audits of NBFCs have been an important instrument in the hands of the regulators to bring discipline in the functioning of NBFCs. Our members who undertake audits of NBFCs, therefore, have an onerous responsibility on their shoulders.

I am happy that the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India has brought out this revised edition of the Technical Guide on Audit of Non-Banking Financial Companies for the benefit of the members. I am also happy that the Technical Guide is quite comprehensive in its coverage, dealing with various aspects of audit of NBFCs, including the various directives issued by the RBI relating to NBFCs.

At this juncture, I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and other members of the Auditing and Assurance Standards Board for their proactive initiatives to help the members in conducting audits in various industries by bringing out industry specific Technical Guides.

I am sure the members would find this Technical Guide immensely useful.

July 15, 2016 **CA. M. Devaraja Reddy**
New Delhi President, ICAI

PREFACE

Non-banking financial companies (NBFCs) are playing an important role in the Indian financial sector. They have diversified the range of services provided by the financial sector to the public by providing a number of specialized financial products and services to various sectors and people especially the unorganized sector. Due to their importance in the financial sector, NBFCs are recognized as being complementary to the banking sector.

However, there are a number of instances of misuse of public funds, irregularities in functioning, bankruptcies etc. in NBFCs. Therefore, the audit of NBFCs in the desired manner is very important to bring discipline in the functioning of NBFCs. As audits of NBFCs involve many issues and peculiarities, the auditors need guidance in the form of a technical audit guide dealing with such aspects.

It gives me immense pleasure to place in your hands this revised edition of the Technical Guide on Audit of Non-Banking Financial Companies of which the last edition was issued in 2012. The Technical Guide deals with various aspects of audit of NBFCs such as introduction of NBFCs, points for consideration in audit of NBFCs, financial reporting framework, auditing framework, operations of NBFCs, areas of audit concern, governance etc. For the benefit of the members, the Appendices to the Technical Guide contain illustrative audit report / certificate templates, illustrative audit checklist, illustrative list of master circulars, disclosure norms for NBFCs, returns to be submitted by NBFCs etc.

I wish to place on record my sincere gratitude to CA. A. Jayashankar and his team comprising CA. Sharad Agarwal, CA. Kapil Gupta and CA. Tushar Kurani for sparing time out of their other preoccupations for revising the Technical Guide and sharing their wealth of knowledge and experience for the benefit of the members.

I wish to express my sincere thanks to CA. M Devaraja Reddy, President, ICAI and CA. Nilesh S. Vikamsey, Vice President, ICAI for their guidance and support to the activities of the Board.

I wish to place on record appreciation of CA. Sanjay Vasudeva, Vice Chairman of the Board, all the Board Members and all the Council Members for their suggestions, support and guidance in finalising this Guide as well as other pronouncements of the Board. I also wish to thank CA. Megha Saxena, Secretary to the Board, and other officers & staff of AASB for their hard working even beyond the working hours of ICAI.

I am confident that the Revised Technical Guide would be well received by the members and other interested readers.

July 18, 2016 **CA. Shyam Lal Agarwal**
Jaipur Chairman,
Auditing and Assurance Standards Board

CONTENTS

Chapter 1
Introduction

1.1 Non-banking financial companies or NBFCs, play an important part of the Indian economy. The areas in which these entities play an important role traditionally include equipment leasing, hire-purchase, making loans and investments. Given the nature of these companies, through Chapter III B of the Reserve Bank of India Act, 1934, the Reserve Bank of India (RBI) was entrusted with the regulation and supervision with the following objectives:

- to ensure healthy growth of the financial companies;
- to ensure that these companies function as a part of the financial system within the policy framework, in such a manner that their existence and functioning do not lead to systemic aberrations; and that
- to sustain the quality of surveillance and supervision exercised by the Bank over the NBFCs by keeping pace with the developments that take place in this sector of the financial system.

What is an NBFC?

1.2 A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 or under the Companies Act, 2013 and is engaged in the business of giving loans and advances, acquisition of shares/stock/ bonds/debentures/securities issued by other companies, Government or Local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property.

1.3 Section 45-I(f) of Reserve Bank of India Act, 1934 defines non-banking financial company as

(i) a financial institution which is a company;

(ii) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or leading in any manner;

(iii) such other non-banking institution or class of such institutions, as the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

Need for registration of NBFC

1.4 Section 45-IA of the Reserve Bank of India Act, 1934 provides that a non-banking financial company shall not commence or carry on business of a non-banking financial institution without –

(a) obtaining a certificate of registration issued under Chapter IIIB of the said Act; and

(b) having the net owned fund of twenty-five lakh rupees or such other amount, not exceeding two hundred lakh rupees, as the Bank may, by notification in the Official Gazette, specify.

1.5 Reserve Bank of India vide its Notification No. DNBS 132 / CGM (VSNM) – 99, dated 20/04/1999 has increased the requirement of “net owned fund” from Rs. 25 lakh to Rs. 200 Lakh for the NBFC which commences business of a non-banking financial institution on or after April 21, 1999. It is Rs. 300 crores in case of an Infrastructure Finance company.

1.6 Reserve Bank of India *vide* its press release dated 8th April, 1999 has announced that “in order to identify a particular company as a non-banking financial company (NBFC), it will consider both, the assets and the income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. The company will be treated as an NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets should be more than 50 per cent of the gross income. Both these tests are required to be satisfied as the determinant factor for principal business of a company."

Meaning of Business of a non-banking financial institution

1.7 Section 45-I(a) of the Reserve Bank of India Act, 1934 provides:

"Business of a non-banking financial institution" means carrying on of the business of a financial institution referred to in clause (c) and includes business of a non-banking financial company referred to in clause (f); Clause (f) defines an NBFC (Refer Paragraph 1.3 above).

Meaning of Financial Institution

1.8 Section 45-I(c) of the Reserve Bank of India Act, 1934 provides:

"financial institution" means any non-banking institution which carries on as its business or part of its business any of the following activities, namely:-

(i) the financing, whether by way of making loans or advances or otherwise, of any activity other than its own;

(ii) the acquisition of shares, stock, bonds, debentures or securities issued by a Government or local authority or other marketable securities of a like nature;

(iii) letting or delivering of any goods to a hirer under a hire- purchase agreement as defined in clause (c) of section 2 of the Hire Purchase Act, 1972 (26 of 1972);

(iv) the carrying on of any class of insurance business;

(v) managing, conducting or supervising, as foreman, agent or in any other capacity, of chits or kuries as defined in any law which is for the time being in force in any State, or any business, which is similar thereto;

(vi) collecting, for any purpose or under any scheme or arrangement by whatever name called, monies in lump sum or otherwise, by way of subscriptions or by sale of units, or other instruments or in any other manner and awarding prizes or gifts, whether in cash or kind, or disbursing monies in any other way, to persons from whom monies are collected or to any other person, but does not include any institution, which carries on as its principal business

(a) agricultural operations; or

(aa) industrial activity; or

(b) the purchase or sale of any goods (other than securities) or the providing of any services; or

(c) the purchase, construction or sale of immovable property, so, however, that no portion of the income of the institution is derived from the financing of purchases, constructions or sales of immovable property by other persons;

Explanation- For the purposes of this clause, "industrial activity" means any activity specified in sub-clauses (i) to (xviii) of clause (c) of section 2 of the Industrial Development Bank of India Act, 1964 (18 of 1964).

Effect of Non-registration

1.9 Sub-section (4A) of Section 58B of the Reserve Bank of India Act, 1934 provides as follows:

"If any person contravenes the provisions of sub-section (1) of section 45-IA, he shall be punishable with imprisonment for a term which shall not be less than one year but which may extend to five years and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees."

1.10 Section 58C provides as follows:

(1) "Where a person committing a contravention or default referred to in section 58B is a company, every person who at the time the contravention or default was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention or default and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to punishment if he proves that the contravention or default was committed without his knowledge or that he had exercised all due diligence to prevent the contravention or default."

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the same was committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary, or other officer or employee of the company, such director, manager, secretary, other officer or employee shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly."

Regulatory Environment

1.11 NBFCs, like banks, are subject to the prudential norms, capital adequacy norms, rules and regulations formulated by the Reserve Bank of India, which is the principal regulator for the financing and NBFC sector in India.

1.12 RBI issued the Miscellaneous Non-Banking Financial Companies (Reserve Bank) Directions, 1977, guidelines on prudential norms (revised in 2015) and various other directions and clarifications, from time to time for governing the activities of NBFCs. Central Government, during 1974, introduced section 58A in the Companies Act, 1956 which empowered Central Government to regulate acceptance and renewal of deposits and to frame rules in consultation with Reserve Bank of India (RBI) prescribing (a) the limit up to, (b) the manner and (c) the conditions subject to which deposits may be invited or accepted / renewed by companies. The Central Government in consultation with RBI framed Companies (Acceptance of Deposits) Rules, 1975.

1.13 These Rules have since been superseded by the Companies (Acceptance of Deposits) Rules, 2014 after the enactment of the Companies Act, 2013 (Chapter V of the Companies Act, 2013 deals with acceptance of public deposits.)

1.14 However it is to be noted that provisions of Chapter V of the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014 are not applicable to NBFCs which are registered with RBI.

1.15 The RBI Act, 1934 was amended in 1997 authorising the Reserve Bank to determine policies, and issue directions to NBFCs regarding income recognition, accounting standards, NPAs, capital adequacy etc. In addition to above, the listed NBFCs are required to adhere to the listing agreement and rules framed by SEBI on Corporate Governance.

1.16 RBI being the regulatory authority for NBFCs, issues circulars from time to time monitoring the activities of NBFCs. The ambit of regulation include the type of activities that can be carried out by NBFC, prudential norms for income recognition, classification of their lending as well as periodic submission of returns and reports to RBI.

1.17 Presently RBI has in place following separate prudential norms directions depending upon the systemic importance and acceptance or holding of deposits by the NBFCs:

a) Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.
b) Systemically Important Non-Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.
c) Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

1.18 Please refer the **Appendix D** to this Guide for various returns to be submitted by an NBFC.

1.19 A list of regulatory requirements (circulars) and the issues that need to be considered by the auditor are given in the **Appendix F** to this Guide. The auditor should check the link for full text of the circular and related updates from RBI.

Type of NBFCs- Compliance and Regulatory perspective

1.20 Currently, NBFCs registered with RBI are being classified as:

- **Asset Finance Company (AFC)** - The principal business of an AFC is financing of physical assets supporting productive / economic activity. These may be in the areas such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

- **Investment Company (IC)** - The principal business is to deal in acquisition of shares and securities of other companies.
- **Loan Company (LC)** - Loan companies primarily provide finance (whether by making loans or advances or otherwise for any activity), other than its own. It however does not include an Asset Finance Company.
- **Infrastructure Finance Companies -** This category of NBFCs deploys a minimum of three-fourths of their total assets in infrastructure loans. The net owned funds of this category NBFCs should be a minimum of Rs. 300 Crores and they should have a minimum credit rating of 'A' or equivalent and the Capital to Risk-Weighted Assets Ratio (CRAR) is 15% (with a minimum Tier I Capital of 10%).
- **Core Investment Company (CIC)** are NBFCs which carry on the business of acquisition of shares and securities in group companies and satisfies four conditions stated in the regulatory framework for Core Investment Companies issued by RBI.
- **Infrastructure Debt Fund - Non-Banking Financial Company (IDF-NBFC) -** Infrastructure Debt Funds (IDFs) are funds set up to facilitate the flow of long-term debt into infrastructure projects. The IDF will be set up either as a trust or as a company. A trust based IDF would normally be a Mutual Fund (MF) while a company based IDF would normally be a NBFC.
- **Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI) -** An NBFC-MFI is defined as a non-deposit taking NBFC(other than a company licensed under Section 25 of the Companies Act, 1956 or under Section 8 of the Companies Act, 2013) that fulfils certain conditions in respect of 85% of its assets (refer Master circular on MFI for the prescribed conditions.)

- **Non-Banking Financial Company - Factor -** This category was introduced in 2012 pursuant to notification of Factoring Regulation Act, 2011 by the Central Government. NBFC-Factor means an NBFC as defined in section 45-I (f) of the RBI Act, 1934 which has its principal business as factoring business and its financial assets in the factoring business constitute at least 50% of its total assets and the income derived from factoring business is not less than 50 per cent of its gross income.
- **Mortgage Guarantee Companies -** These are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage business and net owned fund is Rs. 100 Crore.
- **NBFC – Non operative Financial Holding Company (NOFHC) -** It is a financial institution through which promoter/ promoter groups will be permitted to set up a new bank. It is a wholly owned NOFHC which will hold the bank as well as other financial services companies regulated by the RBI or other financial regulators to the extent permissible under the applicable regulatory prescriptions.

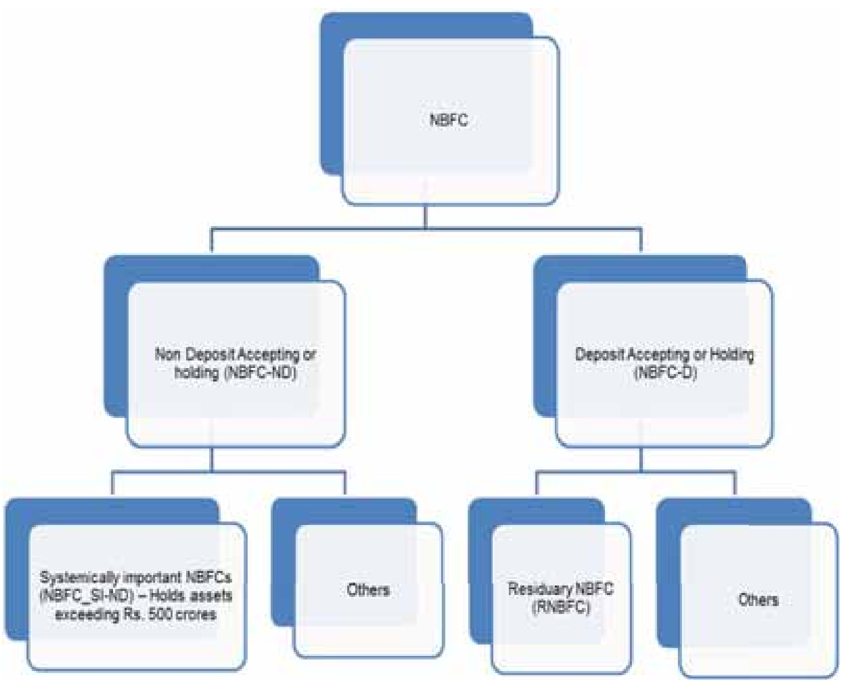
Systemic Significance

1.21 NBFCs-ND shall be categorized into two broad categories *viz.,*

a) NBFCs-ND (those with assets of less than Rs. 500 crore) and
b) NBFCs-ND-SI (those with assets of Rs. 500 crore and above).

1.22 As per RBI regulations NBFCs that are part of a corporate group or are floated by a common set of promoters will not be viewed on a standalone basis. The total assets of NBFCs in a group including deposit taking NBFCs, if any, will be aggregated to determine if such consolidation falls within the asset sizes of the two categories mentioned above. Regulations as applicable to the two categories will be applicable to each of the NBFC-ND within the group. Regulations also require Statutory Auditors to certify the asset size of all the NBFCs in the Group. However, NBFC-D, within the group, if any, will be governed under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and other applicable Directions. (Definition of Group is given in paragraph 2.23).

1.23 NBFCs may be further classified into those accepting deposits or those not accepting deposits.



1.24 Core Investment Companies, Infrastructure Debt Fund NBFC and NBFC – Micro Finance Institution (other than Companies Act, 1956 - Section 25 companies and Companies Act, 2013 - Section 8 companies), are non-deposit holding Companies.

Others

Housing Finance Companies

1.25 National Housing Board set up by the Government of India is the Apex authority regulating the Housing finance companies. The Housing Finance Companies (NHB) Directions, 2010 deals with matters relating to acceptance of deposits by housing finance companies, prudential norms for income recognition, accounting standards, asset classification, provision for bad and doubtful assets, capital adequacy and concentration of credit/ investments to be observed by the housing finance companies and matters to be included in the auditor's report by the auditors of such housing finance companies and matters ancillary and incidental thereto and amended the said directions from time to time. These directions are primarily similar to directions prescribed by RBI for NBFCs.

Scope of the Technical Guide

1.26 The Guide is applicable to all kinds of NBFCs. The purpose of this Guide is to provide practical assistance to auditors primarily in relation to RBI requirements and to promote good practice in applying Standards on Auditing (SAs) to the audit of NBFC's financial statements.

1.27 The Guide is not, however, intended to be an exhaustive listing of the procedures and practices to be used in such an audit. In conducting an audit in accordance with SAs, the auditor is required to comply with all the requirements of all the SAs. Further this Guide may not be applicable where there is a specific requirement imposed by the regulatory authorities governing the NBFCs/ Investment companies.

1.28 The Guide attempts to address the assertions made in respect of financing activities in the entity's financial statements. The approach in this Guide is based on the elements of the financial statements as well as the nature of activity of the NBFCs. However, when obtaining audit evidence to support the financial statement assertions, the auditors should carry out procedures based on the types of activities the entity carries out and the way in which those activities affect the financial statement assertions.

Chapter 2
Audit of NBFCs – Points for Consideration

Business Understanding

2.1 NBFCs are required to register under the following three broad categories, *viz.*,

i) NBFCs accepting public deposit

ii) NBFCs not accepting / holding public deposit

iii) Core investment companies

The regulatory requirement may vary depending upon the category to which the NBFC belongs. It is therefore important for the auditors to understand the nature of business environment. This would help the auditor to plan and conduct audit in an efficient manner. For instance in the case of an NBFC accepting public deposit, the audit objectives may include procedures to confirm compliance with regulatory requirements in respect of public deposits accepted by the NBFC.

Exemptions

2.2 Following categories have been granted total / partial exemption from the applicability of provisions of Chapter III-B of the Reserve Bank of India Act, 1934 and the directions issued thereunder:

1. **Housing Finance Institutions:** The Bank has exempted a non-banking financial company which is a housing finance institution as defined in Section 2(d) of the National Housing Bank Act, 1987 from the provisions of Chapter IIIB of the RBI Act, 1934. Such Company needs

registration under the National Housing Bank Act, 1987 as a Housing Finance Company.

2. **Merchant Banking company:** A merchant banking company has been exempted from the provisions of Section 45-IA [Requirement of registration and net owned fund], Section 45-IB [Maintenance of liquid assets] and Section 45-IC [Creation of Reserve Fund] of the RBI Act, 1934, Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 (since repealed by Prudential Norms Directions Notification No. 192 dated February 22, 2007) subject to compliance with the following conditions:

   (a) It is registered with the Securities and Exchange Board of India as a Merchant Banker under Section 12 of the Securities and Exchange Board of India Act, 1992 and is carrying on the business of merchant Banker in accordance with the Securities and Exchange Board of India Merchant Banking (Rules) 1992 and Securities and Exchange Board of India Merchant Banking (Regulations) 1992;

   (b) acquires securities only as a part of its merchant banking business;

   (c) does not carry on any other financial activity referred to in Section 45I(c) of the RBI Act, 1934; and

   (d) does not accept or hold public deposits as defined in paragraph 2(1)(xii) of the Notification No. DFC 118/DG(SPT)-98 dated January 31, 1998.

3. **Micro Finance Companies:** Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934 shall not apply to any non-banking financial company which is

   (a) engaged in micro financing activities, providing credit not exceeding Rs. 50,000 for a business enterprise and Rs. 1,25,000 for meeting the cost of a dwelling unit to any poor person for enabling him to raise his level of income and standard of living; and

(b) licensed under Section 25 of the Companies Act, 1956; and

(c) not accepting public deposits as defined in paragraph 2(1)(xii) of Notification No. 118 /DG(SPT)-98 dated January 31, 1998.

4. **Mutual Benefit Companies** Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934 shall not apply to any non-banking financial company which being a mutual benefit company as defined in paragraph 2(1) (ixa) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 contained in Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998). A "mutual benefit company" means a company not notified under section 620A of the Companies Act, 1956 (1 of 1956) and carrying on the business of a non-banking financial institution, -

   (a) on 9th January 1997; and

   (b) having the aggregate of net owned funds and preferential share capital of not less than ten lakhs of rupees; and

   (c) has applied for issue of certificate of registration to the Bank on or before 9th July 1997; and

   (d) is complying with the requirements contained in the relevant provisions of the Directions issued under Section 637A of the Companies Act, 1956 to Nidhi Companies by the Central Government.

5. **Government Companies** Sections 45-IB and 45-IC of the Reserve Bank of India Act, 1934, paragraphs 4 to 7 of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 and

Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 except paragraph 13A of the said directions relating to submission of information to Reserve Bank in regard to change of address, directors, auditors, etc. shall not apply to any non-banking financial company as defined in section 45-I(f) of the Reserve Bank of India Act, 1934 being a Government company as defined in section 617 of the Companies Act, 1956. A Government Company is a company in which not less than 51% of the paid up capital is held by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is subsidiary of a Government Company as thus defined.

6. **Venture Capital Fund Companies** Section 45-IA and Section 45-IC of the Reserve Bank of India Act, 1934; Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998; and Notification No. DFC.119 / DG(SPT)-98 dated January 31, 1998 shall not apply to a non-banking financial company, which is a venture capital fund company holding a certificate of registration obtained under Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) and not holding or accepting public deposit as defined in paragraph 2(1)(xii) of the Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998.

7. **Insurance/Stock Exchange/Stock Broker/Sub-Broker** The provisions of Sections 45-IA, 45-IB, 45-IC, 45MB and 45MC of the Reserve Bank of India Act, 1934 and provisions of Non-Banking Financial Companies Acceptance of Public Deposit (Reserve Bank) Directions contained in Notification No. DFC.118 / DG(SPT)-98 dated January 31, 1998, the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 dated January 31, 1998 shall not apply to any non-banking financial company not holding or

accepting public deposit as defined in paragraph 2(1)(xii) of the Notification No. DFC.118/DG(SPT)-98 dated January 31, 1998, and –

(a) doing the business of insurance, holding a valid certificate of registration issued under Section 3 of the Insurance Act, 1938 (IV of 1938);

(b) being a stock exchange, recognised under Section 4 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956); and

(c) doing the business of a stock-broker or sub-broker holding a valid certificate of registration obtained under Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992)

8. Other Companies:

Nidhi Companies and Chit Fund Companies: The provisions of Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934 shall not apply to any non-banking financial company Notified under Section 620A of the Companies Act, 1956 (1 of 1956), known as Nidhi Companies; and doing the business of chits, as defined in clause (b) of Section 2 of the Chit Funds Act, 1982 (No. 40 of 1982).

Securitisation and Reconstruction Companies: Securitisation company or Reconstruction company registered with the Reserve Bank of India under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

Mortgage Guarantee Companies: Mortgage Guarantee Companies notified as non-banking financial company in terms of Section 45I (f)(iii) of the Reserve Bank of India Act, 1934 with the prior approval of the Central Government, and a company registered with the Bank under the scheme for registration of Mortgage Guarantee Companies.

Securitisation and Reconstruction companies and Mortgage Guarantee Companies are exempted from the provisions of Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934.

Exemption to Core Investment Companies

2.3 The RBI, while exempting Core Investment Companies (CIC) from the regulatory requirements, has brought the systemically important Core Investment Companies (CICs-ND-SI) into the ambit of regulatory framework. CIC with an asset size of Rs.100 crore or more are considered as CICs-ND-SI. It may be noted that a CIC is defined as an NBFC carrying on the business of acquisition of shares and securities which satisfy the following conditions:-

(i) it holds not less than 90% of its total assets in the form of investment in equity shares, preference shares, debt or loans in group companies;

(ii) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its total assets;

(iii) it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment; and

(iv) it does not carry on any other financial activity referred to in the RBI Act except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.

2.4 Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 shall not apply to a non-banking financial company being a Core Investment Company referred to in the Core Investment Companies (Reserve Bank) Directions, 2011 (hereinafter referred to as CIC Directions), which is not a systemically important Core Investment Company as defined in clause (h) of sub-paragraph (1) of paragraph 3 of the CIC Directions.

2.5 The provisions of paragraphs 15, 16 and 24 of these directions shall not apply to a Systemically Important Core Investment Company as defined in the CIC Directions, subject to the condition that it submits the Annual Auditors Certificate and meets with the capital requirements and leverage ratio, as specified in the CIC Directions.

Systemically Important CIC

2.6 A Core Investment Company with an asset size of more than Rs.100 crore is called a Systemically Important CIC or CIC-ND-SI.

Registration of CIC-ND-SI

2.7 A CIC-ND-SI (as defined above) shall be required to obtain a Certificate of Registration under section 45-IA of the RBI Act, 1934 irrespective of any advice in the past, issued by the RBI, to the contrary and be governed by the provisions of the Act and directions issued by RBI from time to time. Every Core Investment Company shall apply to the RBI for grant of Certificate of Registration within a period of three months from the date of becoming a CIC-ND-SI.

2.8 Every CIC exempted from registration requirement with RBI shall pass a Board Resolution that it will not, in the future, access public funds. If unregistered CICs with asset size above Rs. 100 crore access public funds without obtaining a Certificate of Registration (CoR) from RBI, they will be seen as violating CICs (Reserve Bank) Directions, 2011 dated January 05, 2011.

Capital Adequacy for CIC

2.9 Adjusted Net Worth of a CIC-ND-SI shall at no point of time be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year.

Leverage Ratio

2.10 The outside liabilities of a CIC-ND-SI shall at no point of time exceed 2.5 times its Adjusted Net Worth as on the date of the last audited balance sheet as at the end of the financial year.

Exemptions

2.11 CIC-ND-SI maintaining the minimum capital and leverage ratio shall be exempted from maintenance of minimum Net Owned Funds, CRAR and concentration limits. CIC with asset size of less than Rs.100 crores is exempted from registration under Reserve Bank of India Act, 1934.

2.12 CIC-ND-SI are exempted from provisions of paragraphs 15, 16 and 18 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, contained in Notification No. DNBS.193/DG(VL)-2007 dated February 22, 2007 subject to the condition that it submits the Annual Auditors' Certificate and meets with the capital requirements and leverage ratio.

Statutory Auditors Certificate

2.13 Every CIC-ND-SI shall submit an annual certificate from its statutory auditors regarding compliance with the requirements of these directions within a period of one month from the date of finalisation of the balance-sheet.

2.14 The auditor may remember the following while understanding the category of NBFC:

- A loan company or an investment company shall have financial assets more than 50% of its total assets and financial income in excess of 50% of the total income from financial assets respectively.
- In the case of an asset finance company the aggregate of financing real / physical assets supporting economic activity should be greater than 60% of total assets and the income arising therefrom should be greater than 60% of total income.
- For an infrastructure company, a minimum of 75% of the total assets are to be deployed in infrastructural loans and finance income should be greater than 50% of total income.

  The auditor should refer to the prudential norms for the directions provided by RBI with regard to income recognition, provisioning, accounting for investments.
- In the case of a core investment company, the investments in shares and other securities should be 90% of the net assets of the company and investments in equity shares should constitute more than 60% of the net assets of such company.
- In the case of a company having factoring business, income derived from factoring business should constitute more than 50% of its gross income.

Capital Risk-Weighted Asset ratio (CRAR)

2.15 For deposit and non-deposit taking NBFCs, Capital to Risk (Weighted) Assets Ratio or CRAR, which includes Tier I capital of 7.5 per cent, is 15 per cent at present. The total of Tier I capital, at any point of time, shall not be less than 8.5% by March 31, 2016 and 10% by March 31, 2017.

Computation of CRAR (illustrative)

CRAR

CRAR = $\frac{\text{Total Capital Funds}}{\text{Risk-weighted Assets}}$

Total Capital Funds = Tier I Capital + Tier II Capital

Weighted Risk Assets

Assets and investments of the NBFC are given risk weights (e.g. Shares / debentures / bonds / commercial papers of all companies and units of all mutual funds is weighted 100%, whereas Bonds of public sector banks are 20% and Loans to staff is 0%)

Tier I

Equity + CCPS + Free reserves + Perpetual debt instruments (upto 15% of Tier I of previous accounting year) - Accumulated Losses - NBFC investments - Loans / deposits to subsidiaries and group companies

Tier II

OCPS / OCDs + hybrid debt + Subordinated debt + General Provision and loss reserves (subject to conditions) + Perpetual debt instruments (which is in excess of what qualifies for Tier I above)
To the extent aggregate does not exceed Tier I capital

Risk Weighted Assets

2.16 On Balance Sheet Assets: The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Weighted risk assets – weight	Percentage
(i) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(ii) Investments	
(a) Approved securities [Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) Fixed deposits/certificates of deposits/ bonds of public financial institutions	100
(d) Shares of all companies and debentures/bonds/commercial papers of all companies and units of all mutual funds	100
(e) All assets covering PPP and post Commercial Operations Date (COD) infrastructure projects in existence over a year of commercial operation.	50
(iii) Current assets	
(a) Stock on hire (net book value)	100
(b) Inter-corporate loans/deposits	100
(c) Loans and advances fully secured against deposits held by the company itself	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good	100
(f) Bills purchased/discounted	100

(g) Others (To be specified)	100
(iv) Fixed Assets(net of depreciation)	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
(v) Other assets	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100

2.17 Off Balance Sheet Items:

Sr. No.	Instruments	Credit Conversion Factor
i.	Financial & other guarantees	100
ii.	Share/debenture underwriting obligations	50
iii.	Partly-paid shares/debentures	100
iv.	Bills discounted/rediscounted	100
v.	Lease contracts entered into but yet to be executed	100
vi.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC.	100

vii.	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.	100
viii.	Lending of NBFC securities or posting of securities as collateral by NBFC, including instances where these arise out of repo style transactions	100
ix.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of:	
	up to one year	20
	over one year	50
x.	Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's credit worthiness.	0
xi.	Take-out Finance in the books of taking-over institution	
	(i) Unconditional take-out finance	100
	(ii) Conditional take-out finance	50
	Note: As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.	
xii.	Commitment to provide liquidity facility for securitization of standard asset transactions	100
xiii.	Second loss credit enhancement for	100

	securitization of standard asset transactions provided by third party	
xiv.	Other contingent liabilities (To be specified)	50
xv.	Non-fund based claims on the Central Government	0

Note:

i. Cash margins/deposits shall be deducted before applying the conversion factor

ii. Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of NBFC's on-balance sheet credit exposure.

For example:

A term loan of Rs. 700 cr is sanctioned for a large project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – Rs. 150 cr in Stage I, Rs. 200 cr in Stage II and Rs. 350 cr in Stage III, where the borrower needs the NBFC's explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already Rs. 50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be Rs.100 cr. If Stage I is scheduled to be completed within one year, the CCF will be 20 percent and if it is more than one year then the applicable CCF will be 50 per cent.

2.18 Market Related Off-Balance Sheet Items

i. NBFCs should take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo / reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures.

ii. The credit risk on market related off-balance sheet items is the cost to an NBFC of replacing the cash flow specified by the contract in the event of counterparty default. This would depend, among other things, upon the maturity of the contract and on the volatility of rates underlying the type of instrument.

iii. Market related off-balance sheet items would include:

   (a) interest rate contracts - including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;

   (b) foreign exchange contracts, including contracts involving gold, - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;

   (c) Credit Default Swaps; and

   (d) any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.

iv. Exemption from capital requirements is permitted for -

   (a) foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less; and

   (b) instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.

v. The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralized Borrowing and Lending

Obligations - CBLOs, Repos) outstanding against them will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.

vi. A CCF of 100 per cent will be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure will be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight will be 20 per cent and for other CCPs, risk weight will be 50 percent.

vii. The total credit exposure to a counter party in respect of derivative transactions should be calculated according to the current exposure method as explained below:

2.19 Current Exposure Method

The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of (a) current credit exposure and (b) potential future credit exposure of the contract.

(a) Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty should not be netted). The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market.

(b) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives

Credit Conversion Factors (%)

	Interest Rate Contracts	Exchange Rate Contracts & Gold
One year or less	0.50	2.00
Over one year to five years	1.00	10.00
Over five years	3.00	15.00

i. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.

ii. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.

iii. No potential future credit exposure would be calculated for single currency floating / floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

iv. Potential future exposures should be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the NBFC would have an effective notional amount of USD 2 million.

2.20 Credit conversion factors for Credit Default Swaps(CDS):

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may be held in current category or permanent category. The capital charge for these exposures will be as under:

(i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection will be permitted to be recognised to a maximum of 80% of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20% of the applicable capital charge. This can be achieved by taking the exposure value at 20% of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others."

Please refer to Master Circular related to Prudential Norms for details. Also please refer to the treatment of deferred tax asset and deferred tax liabilities while computing tier I and tier II capital as described in paragraph 2.21 below.

Computation of Net Owned Funds

- Any NBFC seeking registration as NBFC with RBI should have a minimum Net Owned Funds (NOF) of Rs 2 Crores. In the case of an Infrastructure Finance Company the minimum NOF is Rs 300 Crores.
- The Net Owned Funds can be computed by the following step by step process (illustrative):

Step 1	Paid-up equity capital and Free reserves (A)	XX
Step 2	Less: Accumulated balance of loss, Deferred revenue expenditure and book value of other intangible assets (B)	X
Step 3	(C) = (A) minus (B)	XX
Step 4	Sum up the figures, if any, under the following items: a) Investments in shares of Subsidiaries, companies in the same group, other NBFCs b) Book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to Subsidiaries, companies in the same group c) Deposits with Subsidiaries, companies in the same group If the resultant figure exceeds 10% of (C), find out the excess = (D)	X
Step 5	NOF = (C) minus (D)	XX

Compulsory Convertible Preference Shares (CCPs) / Compulsory convertible debentures(CCDs) are not considered for calculation of Net Owned Funds.

2.21 In computing the ratio, the following clarification of the RBI on the treatment of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL) should be kept in mind by the auditor.

- The balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital adequacy purpose and the DTA being the intangible asset should be deducted from Tier I capital.
- DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year should be included under "Others" of "Other Liabilities and Provisions."
- DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year should be included under item "Others" of "Other Assets."
- Intangible assets and losses in the current period and those brought forward from previous periods should be deducted from Tier I capital.
- DTA computed as under should be deducted from Tier I capital:

  (i) DTA associated with accumulated losses; and

  (ii) The DTA (excluding DTA associated with accumulated losses) net of DTL.

  Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to Tier I capital.

2.22 The auditor should also verify whether the NBFCs which are unable to comply with the regulatory CRAR requirement due to the above mentioned treatment of DTL /DTA have obtained any transition period to comply with the regulatory CRAR requirement by RBI and if so, whether the same has been adhered to.

Note: The matters required to be verified by the auditor above are contained in the return on Prudential Norms (NBS- 2) which is required to be filed on a half yearly basis. When the auditor finalizes his report for any particular year, the return for the first half of the said year duly filed with RBI alone would be available with the company. In respect of the return for the second half of the year, the auditor may have to place his reliance based on his review of the return as prepared by the company which is yet to be filed as well as the representation by the management. The auditor should explicitly state this fact in his report.

Credit Concentration Norms for Systemically Important Non-Deposit accepting NBFC

(NBFC-ND-SI)(% of Owned Funds) (Illustrative)

Single / Group Exposure Limits	Lending	Investment	Both
Single Borrower	15%	15%	25%
Single Group of Borrowers	25%	25%	40%
Infrastructure Loan / Investment Single borrower Single group of borrowers	Addl. 5% Addl. 10%	Addl. 5% Addl. 10%	Addl. 5% Addl. 10%

2.23 Group companies are to be determined as per definitions in AS 21 for subsidiary parent relationship, AS 27 for Joint Ventures, Associates in AS 23, Promoter-Promotee as provided in SEBI (Acquisition of Shares and Take over) Regulations, 1997 for listed companies, a related party (defined in terms of AS 18), Common brand name, and investments in equity shares of 20% and above.(Reference -

Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015) and limits are to be computed as percentage of owned funds.

- Ceiling in investment of shares not applicable in respect of investment in equity of insurance company (with RBI approval).
- Ceiling not applicable for investments of NBFC in shares of its subsidiaries, companies in the same group to the extent they have been reduced from Owned Funds for the calculation of NOF.
- Also ceiling not applicable in respect of the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with,-
  - (i) subsidiaries of the NBFC; and
  - (ii) companies in the same group, to the extent they have been reduced from Owned Funds for the calculation of NOF.
- An Investment in Debentures is treated as credit and not investment.
- Through a notification DNBR (PD) CC.No.077/03.10.001/2015-16 dated April 7, 2016 RBI has decided that concentration of credit/ investment norms shall not apply to a systemically important non-banking financial company not accessing public funds in India, either directly or indirectly, and not issuing guarantees.
- These ceilings shall be applicable to the credit/investment by such a non-banking financial company to companies/firms in its own group as well as to the borrowers/ investee company's group.
- Definition of 'public funds' includes bank borrowings, debentures, guarantees, Optionally Convertible

Preference Shares / Optionally Convertible Debentures / OCPS / OCDs / CCDs do not form a part of the 'owned funds' definition.

Computation of Owned funds (Illustrative)

	Paid up Equity Capital	XX
Add	Compulsorily Convertible Preference Shares	XX
Add	Free Reserves	XX
Add	Share Premium	XX
Add	Capital Reserves (representing surplus arising out of sale proceeds of assets) (other than reserves created by revaluation of asset)	XX
Less	Accumulated loss balance	X
Less	Book value of intangible assets	X
Less	Deferred Revenue expenditure	X

2.24 Core Investment companies are exempted from the requirement of maintaining minimum CRAR and credit exposure norms.

2.25 There are certain end use restrictions for the finance availed from banks for the activities of NBFCs such as

- Following activities are not eligible for Bank Credit:
  - For Bills discounted/rediscounted by NBFCs except those arising on sale of commercial vehicles and two and three wheelers subject to following conditions:
    a) the bills should be drawn by the manufacturers on dealers only;
    b) bills should represent genuine sale transactions.

- Investments by NBFCs in any company/entity by way of shares, debentures, etc., (Stock broking companies may be provided need based credit);
- For unsecured loans/inter-corporate deposits by NBFCs to/in any company;
- All types of loans and advances by NBFCs to their subsidiaries, group companies;
- Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings.

2.26 The auditor should plan his work to meet the overall audit objective of expressing an opinion on the truth & fairness of the financial statements. In the planning stage the auditor should gather relevant organisational information for creating his audit plan. The preliminary study would help the auditor in the following:

- Understand the business issues and the associated risks.
- Help in communication with the management and where required, with those charged with governance on timely basis.
- Help the auditor to identify the issues that may require special attention in the audit.
- The auditor would be able to develop an audit scope that may add value to the entity by focussing on areas more meaningful to the management.

Chapter 3
Financial Reporting Framework

3.1 The Prudential norms directions for both Deposit holding and Non-Deposit holding NBFCs state that Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India ('ICAI') shall be followed in so far as they are not inconsistent with any of these Directions. Subsequent to notification of the Companies (Accounting Standard) Rules, 2006, same needs to be complied with by the NBFC if it is a Company, However, in absence of any available guidance therein, they may consider applicability of various guidance issued under the authority of ICAI.

Please refer **Appendix E** to this Guide for disclosures required as per RBI guidelines.

Compliance with Indian Accounting Standards (Ind AS)

3.2 The Ministry of Corporate Affairs (MCA) has issued a press release on 18 January 2016, announcing Ind AS roadmap for scheduled commercial banks (excluding regional rural banks [RRBs]), insurers/ insurance companies and non-banking financial companies (NBFCs). The roadmap provides a phase-wise approach for NBFCs, primarily based on a company's net worth beginning April 1, 2018.

NBFCs: NBFCs will be required to prepare Ind AS based financial statements in two phases.

Phase 1: Mandatory for accounting periods beginning from 1 April 2018 onwards

- NBFCs having a net worth of 500 crore INR or more

- Holding, subsidiary, joint venture or associate companies of the above, other than those companies already covered under the corporate roadmap announced by MCA
- Comparative information required for the period ending 31 March 2018 or thereafter

Phase 2: Mandatory for accounting periods beginning from 1 April 2019 onwards

- NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having a net worth less than 500 crore INR
- NBFCs that are unlisted companies, having a net worth of 250 crore INR or more but less than 500 crore INR
- Holding, subsidiary, joint venture or associate companies of companies covered above, other than those companies already covered under the corporate roadmap announced by MCA
- Comparative information required for the period ending 31 March 2019 or thereafter.

NBFCs having a net worth below 250 crore INR and not covered under the above provisions shall continue to apply Accounting Standards specified in Annexure to the Companies (Accounting Standards) Rules, 2006.

Compliance with Schedule III to the Companies Act, 2013

3.3 NBFCs registered under the Companies Act, 1913/1956/2013 are now required to comply with Schedule III to the Companies Act, 2013 in respect of presentation and disclosure in financial statements with effect from financial year commencing on or after April 1, 2014.

Chapter 4
Auditing Framework

4.1 Auditors are required to ensure compliance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI) which are also specified under section 143(10) of the Companies Act, 2013 while discharging there audit obligations. In addition the auditor is required to follow other applicable authoritative pronouncements of ICAI like Guidance Note on Audit Reports and Certificates for Special Purposes while issuing certificates and reports mandated by RBI. Certain important auditing standards that are considered by the auditor are as follows:

Objective and Scope of the Audit of Financial Statements

4.2 The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements of the NBFC are prepared, in all material respects, in accordance with an identified financial reporting framework.

The auditor's report indicates the financial reporting framework that has been used to prepare the NBFC's financial statements.

Agreeing to the Terms of Engagement

4.3 The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities and the form of audit reports.

4.4 Some of the characteristics are unique to NBFCs and indicates the areas where the auditors and his assistants may require specialised skills. In considering the objective and scope of the audit and the extent of the responsibilities, the auditor should consider his own skills and competence and those of his assistants to conduct the engagement. In doing so, the auditor should consider the following factors:

- The need for sufficient expertise in the aspects of financing relevant to the audit of the NBFC's business activities.
- The need for expertise in the context of the IT systems and communication networks the NBFC uses.

4.5 Through an announcement in September, 2005 ICAI has informed the members about receipt of a communication dated September 23, 2005 from the Department of Non-Banking Supervision of the RBI in respect of the role that can be played by the statutory auditors of Non-Banking Financial Companies (NBFCs) in fighting the menace of vanishing NBFCs. The Reserve Bank, in its said communication, has desired that the statutory auditors of an NBFC inform the Regional Office of the RBI under whose jurisdiction the NBFC is functioning on their appointment or cessation as statutory auditors of the NBFC concerned. ICAI has requested the members to ensure compliance with the above-mentioned requirement of the RBI.

Auditors should consider including this requirement in the terms of engagement.

Audit Planning

4.6 A well designed audit plan is necessary for the auditor to conduct an effective and efficient audit. The audit plan gives details of the audit objectives and steps the auditor should consider, to ensure that all important issues in the audit are covered. A well designed audit plan includes the following:

- Obtaining a sufficient knowledge of the entity's business and governance structure, and a sufficient understanding of the accounting and internal control systems, including risk management and internal audit functions;

- Considering the assessments of inherent and control risks i.e. the risk that material misstatements occur (inherent risk) and the risk that the NBFC's system of internal control does not prevent or detect and correct such misstatements on a timely basis (control risk);
- Determining the nature, timing and extent of the audit procedures to be performed; and
- Considering the appropriateness of the going concern assumption regarding the entity's ability to continue its operation for the foreseeable future, which will be the period used by management in making its assessment under the financial reporting framework. This period will ordinarily be for a period of at least one year after the balance sheet date.

Table A: Obtaining knowledge of the NBFC's business

The auditor needs to understand: • *Corporate governance structure:* Corporate governance plays a particularly important role in NBFCs; many regulators set out requirements for NBFCs to have effective corporate governance structures. Accordingly the auditor should obtain an understanding of the NBFC's corporate governance structure and how those charged with governance discharge their responsibilities for the supervision, control and direction of the NBFC. • The economic and regulatory environment prevailing in the principal countries in which the NBFC operates. • The market conditions existing in each of the significant sectors in which the NBFC operates. • *Products and Services:* In obtaining and maintaining that knowledge, the auditor is aware of the many variations in the basic deposit, loan and treasury services that are

offered by NBFCs in response to market conditions. The auditor should obtain an understanding of the nature of services rendered or financial transactions undertaken through instruments such as letters of credit, acceptances, interest rate futures, forward and swap contracts, options and other similar instruments in order to understand the inherent risks and the auditing, accounting and disclosure implications thereof.

- *Service Organisation:* If the NBFC uses service organizations to provide core services or activities, such as cash and securities settlement, back office activities or internal audit services, the responsibility for compliance with rules and regulations and sound internal controls remains with those charged with governance and the management of the outsourcing NBFC. The auditor should consider legal and regulatory restrictions, and obtains an understanding of how the management and those charged with governance monitor that the system of internal control (including internal audit) operates effectively. SA 402, "Audit Considerations Relating to an Entity Using a Service Organization" gives further guidance on this subject.

- *Risk:* There are a number of risks associated with financing activities that are important in that, they serve to shape financing operations. The auditor should obtain an understanding of the nature of these risks and how the NBFC manages them. This understanding allows the auditor to assess the levels of inherent and control risks associated with different aspects of NBFC's operations and to determine the nature, timing and extent of the audit procedures

  For example, an entity financing a movable assets, needs to ensure that asset exists and is traceable. If not, the security valuation could be an issue from a provisioning perspective.

  If the NBFC is a micro finance institution, fraud risk on misappropriation of cash becomes a significant risk. This misappropriation could be done during disbursement or during the collections process.

Another example could be, in case of a company dealing with loans against shares, valuation of shares could be a risk.

4.7 In developing an overall plan for the audit of the financial statements of a NBFC, the auditor should give particular attention to:

- The complexity of the transactions undertaken by the NBFC and the documentation in respect thereof;
- The extent to which any core activities are provided by service organizations;
- Regulatory considerations;
- The extent of IT and other systems used by the NBFC;
- The expected assessments of inherent and control risks;
- The work of internal auditor;
- The assessment of audit risk;
- The assessment of materiality;
- Management's representations;
- The involvement of other auditors;
- Contingent liabilities and off-balance sheet items;
- The geographic spread of the NBFC's operations and the co-ordination of work between different audit teams;
- Transactions with related parties; and
- Going concern considerations.

Audit Evidence

4.8 The auditor should review the NBFC's sources of revenue, and obtain sufficient appropriate audit evidence regarding the following:

a) The accuracy and completeness of the NBFC's accounting records relating to such transactions.

b) The existence and operating effectiveness of key controls to limit the risks arising from such transactions.

c) The adequacy of provisions, if any, for loss which may be required.

d) The adequacy of financial statement disclosures and presentation

4.9 The auditor is required to obtain sufficient appropriate audit evidence and should design and perform audit procedures that are appropriate in the circumstances for this purpose.

4.10 It is important for the auditor to consider the relevance and reliability of the information gathered/obtained as audit evidence. The auditor may need to consider the audit evidence prepared by the entity, audit evidence provided by third parties as well as by the external expert. The auditor needs to evaluate the competence, capability and objectivity of that expert as well as his independence and should evaluate work performed by an expert.

4.11 The auditor is required to check the accuracy and completeness of the information and evaluate whether it is sufficient and detailed for audit purposes.

4.12 Since the transactions of NBFCs are substantially financial in nature, the underlying documents / agreements form important audit evidence for the auditor. The auditor should verify all the relevant documents for gathering sufficient appropriate audit evidence.

The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements

4.13 It is the primary responsibility of the management and those charged with governance to prevent and detect frauds. The auditor is only concerned with frauds that cause a material misstatement in the financial statements. Misstatements may arise from fraudulent financial reporting and/or misappropriation of assets.

4.14 Fraudulent activities may take place within a NBFC by, or with the knowing involvement of, management or personnel of the NBFC. Alternatively, fraud may be perpetrated on a NBFC without the knowledge or complicity of the NBFC's employees.

4.15 Frauds may include:

- fraudulent financial reporting, (for example, to conceal trading losses), or
- misappropriation of the assets that may or may not involve the falsification of records.

4.16 SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" gives detailed guidance on the nature of the auditor's responsibilities with respect to fraud. Because of the characteristics of fraud, the auditor's exercise of professional skepticism is important when considering the risks of material misstatement due to fraud. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Furthermore, professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred.

4.17 Members of the audit team should engage in a timely discussion with management and also discuss, as a team, the potential for material misstatement due to fraud. The discussion among the audit team members about the susceptibility of the entity's financial statements to material misstatement due to fraud should include a consideration of the known external and internal factors affecting the entity that might (a) create incentives or pressures for management and others to commit fraud, (b) provide the opportunity for fraud to be perpetrated, and (c) indicate a culture or environment that enables management to rationalize committing fraud. Communication among the audit team members about the risks of material misstatement due to fraud also should continue throughout the audit.

4.18 The RBI has issued a circular requiring all NBFCs to report the occurrence of any 'fraud' by or on the company during the financial year and the same has been updated by circular (Frauds – Future approach towards monitoring of frauds in NBFCs). A ceiling has been prescribed for reporting of frauds to the Central/Regional offices of the RBI.

Reporting of Frauds to RBI

Classification of Frauds

4.19 For the purpose of reporting, the RBI has classified the frauds in the following categories:

- Frauds involving Rs. 1 lakh and above,
- Frauds committed by unscrupulous borrowers, and
- Frauds involving Rs. One crore and above

Reporting of Frauds

4.20 An NBFC is required to submit the following forms to the RBI for reporting of frauds:

Form No.	Purpose of the Form	Reporting due date	Submitted to
FMR – 1	Report on Actual or	Three weeks from the date	Regional Office of the Department of Non-

	Suspected Frauds in NBFCs	of detection	Banking Supervision of Reserve Bank of India under whose jurisdiction the Registered Office of the NBFC falls. However, in cases where the amount involved is more than Rs One Crore, the same also needs to be submitted to Central Office (CO) of the Reserve Bank of India, Department of Banking Supervision, Frauds Monitoring Cell
FMR – 2	Quarterly Report on Frauds Outstanding	Within 15 days from the end of the quarter.	Regional Office of the Reserve Bank of India, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the NBFC falls.
FMR – 3	Quarterly Progress Report on Frauds of Rs 1.00 Lakh & Above	Within 15 days from the end of the quarter.	NBFCs should furnish case-wise quarterly progress reports on frauds involving Rs. 1 lakh and above in the format given in FMR – 3 to the Central Office (CO) of the Reserve Bank of India, Department of Banking Supervision, Frauds Monitoring Cell where the amount involved in fraud is Rs. One Crore and above and to Regional Office of the Reserve Bank of India, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the NBFC falls

4.21 An NBFC is also required to report in cases where central investigating agencies have initiated criminal proceedings suo-moto and/or where the Reserve Bank has directed that they be reported as frauds.

4.22 While reporting on fraud, the NBFC also needs to include frauds perpetrated in their subsidiaries and affiliates / joint ventures. However, the same need not be included in the report on outstanding frauds and the quarterly progress reports (FMR 2 & 3).

Cases of attempted fraud

4.23 From December 2012, the practice of reporting the attempted fraud to RBI has been discontinued. However, the individual cases involving Rs. 25 lakh or more of attempted fraud should be placed before the Audit Committee of NBFC's Board. The Audit Committee should also be informed about the modus operandi, how the fraud was detected, measures taken by the NBFC to strengthen the existing systems and controls, new systems and controls put in place in the area where fraud was attempted etc.

4.24 As per the requirement of the RBI circular, NBFCs should ensure that all frauds of Rs. 1 lakh and above are reported to their Boards promptly on their detection. Such reports should, among other things, take note of the failure on the part of the concerned officials, and consider initiation of appropriate action against the officials responsible for the fraud.

4.25 As a general guideline, following cases should invariably be reported to the state police:

- Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of NBFC staff/officers.
- Cases of fraud committed by NBFC employees, when it involves NBFC funds exceeding Rs. 10,000/-.

4.26 Attention is also drawn to the obligation cast on the auditor to report fraud to the Central Government pursuant to the requirement of section 143(12) of the Companies Act, 2013. In this regard, auditor should refer to the Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013 issued by ICAI.

Risk Assessment and Internal Controls

4.27 Any audit of NBFCs should include the evaluation of internal controls either as a part of the audit methodology or as a basis for reliance being gathered as a part of the audit. The extent of assessment of the controls would depend on the audit objectives of the auditor; the auditor should assess the effectiveness of controls over a period of time; and the auditor should develop the audit plan on the basis of evaluation of the internal controls. For instance, in using computer programmes to test data files, the auditor, probably with the help of system auditor, should evaluate controls over program libraries containing programs being used for audit purposes to determine the extent to which the programs are protected from unauthorised access/modification.

4.28 Attention is also drawn to auditor's responsibility to report on Internal Financial Controls over Financial Reporting under clause(i) of sub section 3 of section 143 of the Companies Act, 2013. Auditor should refer to the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by ICAI.

Using the Work of an Expert

4.29 The auditor of an NBFC may come across various occasions where he may have to rely on the work of an expert. They mostly relate to the assets given as security against the lending of NBFCs. Some examples are:

- Valuations of certain types of assets, for example, land and buildings, plant and machinery etc.

- Legal opinions concerning interpretations of agreements, statutes, regulations, notifications, circulars, etc.

4.30 Following factors would determine the need to consider the work of an expert:

- materiality of the item being examined in relation to the financial information as a whole;
- nature and complexity of the item including the risk of error therein; and
- other audit evidence available with respect to the item.

Table B: Evaluating the work of an expert

a) Evaluate the professional competence, objectivity and experience of the expert by considering the following: i) the expert's professional qualifications, for example, professional certification, license or other recognition of the competence of the expert in the field, as appropriate; ii) the experience and reputation of the expert in the field in which auditor is seeking audit evidence; iii) the expert's objectivity or relationship, if any, to the client, including but not limited to financial interests or employment relationships.
b) Obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the audit (i.e. it constitutes appropriate audit evidence in support of the financial statement assertions being considered), by considering: i) the objectives and the scope of the expert's work; ii) the source data used; iii) the assumptions and methods used and if appropriate, their consistency with the prior period;

iv) when the expert carried out the work;

v) the reasons for any changes in assumptions and methods compared with those used in the prior period; and

vi) the results of the expert's work in the light of both auditor's overall knowledge of the business and the results of his audit procedures.

c) Consider obtaining, in conjunction with the entity or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert.

d) Where the expert's work should be subject to a recognised methodology, for example published by organisation to which expert belongs, confirm this has been used. The risk that an expert's objectivity will be impaired increases when the expert is:

i) employed by the entity; or

ii) related in some other manner to the entity, for example, by being financially dependent upon or having an investment in the entity.

e) Considering the results of assessment of the experts work

i) If the findings of the expert support the related assertions in the financial statements, it may be reasonably concluded that sufficient appropriate audit evidence has been obtained. In these circumstances, no reference to the use of expert should be included in the auditor report.

ii) If the results of the expert's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, additional procedures should be applied which may include obtaining the opinion of another expert or performing additional audit procedures. Consider the implications on the audit opinion if auditor is unable to obtain adequate assurance. If considered necessary decide to issue a modified audit report, consider referring to or describing the work of the expert (including the identity of the expert and the extent of the expert's involvement). In these circumstances, obtain the permission of the expert before making such a reference.

While considering the competence or objectivity of the expert, it is necessary to discuss any reservations with management and consider whether sufficient appropriate audit evidence can be obtained concerning the work of an expert. If the results of the expert's work do not provide sufficient appropriate audit evidence, or if the results are not consistent with other audit evidence, there is need to resolve the matter and consider the possibility to modify audit report.

To an extent based on materiality and inherent risk, document the understanding of the matters as below:

a) the objectives and scope of the expert's work;

b) clarification of the expert's representations as to his relationship, if any, to the client;

c) confidentiality of the client information;

d) the methods or assumptions to be used, for example, if property is involved, the client's plans and intentions for the property;

e) the extent of the expert's access to appropriate records and files;

f) a comparison of the methods or assumptions to be used with those used in the preceding period;

g) the expert's understanding of auditor's use of the expert's findings in relation to the representations in the financial statements;

h) the form and content of the expert's report in relation to the representations in the financial statements; and

i) the intended use of the expert's report including the possible communication to third parties of the expert's identity and extent of involvement.

Consider whether the expert has used source data which is appropriate in the circumstances, by, for example:

a) making inquiries of the expert to determine how the expert has obtained satisfaction that the source data is sufficient, relevant and reliable; and

b) performing audit procedures, based on materiality and inherent risk, on the data provided by the client to the expert to obtain reasonable assurance that the data is appropriate, including:

   i) verify the completeness of the information provided to the expert;

   ii) examine listing of transactions, account balances or other information provided to the expert; and

   iii) consider discussing the work performed with the expert.

When the expert's findings include a range of results using different assumptions, ensure that management's assessment of the findings, and decisions taken on the assumptions, is reasonable.

Representations by Management

4.31 The objective of the auditor is to obtain written representations from the management and where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor.

4.32 Although the written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any matters with which they deal. The auditor should obtain audit evidence independently about the fulfilment of management's responsibilities or about specific assertions.

Responsibility of Joint Auditors

4.33 In many cases the auditor may conduct the audit of an NBFC jointly with another independent auditor. In such situations the auditor is required to comply with the requirements of SA 299, "Responsibility of Joint Auditors".

Consideration of Laws and Regulations in and Audit of Financial Statements

4.34 NBFCs are governed by various regulations of RBI concerning their conduct of business and reporting requirements. This is apart from the usual compliance and reporting requirements of the Companies Act under which it is incorporated as well as SEBI regulations, if it is a listed entity.

4.35 The auditor should understand the compliance requirements under various enactments which would help the conduct of audit. With the business getting complex and globalisation of finance business, the monitoring agencies make amendments to the existing rules and regulations. The auditor should be aware of such amendments affecting the NBFC.

Documentation

4.36 Apart from the usual audit documentation, it is very helpful for the auditor to prepare and retain audit documentation of all the significant matters identified during the audit and how those were addressed. Audit summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist the auditor's consideration of the significant matters. It may also help the auditor to consider whether, in light of the audit procedures performed and conclusions reached, there is any individual relevant objective of SAs that the auditor has not met or is unable to meet that would prevent the auditor from achieving the auditor's overall objective.

4.37 The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.

4.38 The auditor also needs to have proper audit documentation to evidence how inconsistencies identified during the audit have been addressed.

Reporting

4.39 Apart from the reporting under Section 143 of the Companies Act, 2013, RBI, through Section 45MA of the RBI Act (Part of Chapter III B of RBI Act) lays out the powers and duties of the auditors of an NBFC.

- Section 45 MA(1)- Casts duty on auditors to inquire if NBFC has submitted to the RBI, the requisite information, statements or particulars regarding deposits accepted by it. On exception, the auditors need to report to RBI the "aggregate of such deposits held" by NBFC.
- Section 45 MA (2)- Where auditors report or intend to report to RBI under Section 45 MA(1) above, the matter should also be included in his report under section 143 of Companies Act, 2013.
- Section 45 MA(1A) - Empowers RBI to issue directions to NBFCs or auditors of NBFCs relating to Balance

Sheet, Profit and Loss Account, Disclosures or other Matters.

4.40 RBI had also issued a revised Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 and the updated version is hosted every year on July 1 as a Master Circular. According to these directions, the auditor, in addition to the report under Section 143 of the Companies Act, 2013, should also make a separate report to the Board of Directors on specific matters. Where the report is modified, the reasons therefore need to be given by the auditor.

4.41 In case the additional report to Board of Directors is modified, auditor under the aforesaid directions has an obligation to report the same directly to the RBI. It is an obligation directly cast on the auditor. Hence auditor is required to ensure that the exception report is addressed to the RBI and is submitted by him directly to RBI at the office located in the area where the company is situated.

4.42 While the auditors need to report on whether the NBFC has obtained a Certificate of Registration, some of the other matters to be reported to Board of Directors of Non Deposit taking NBFCs are as follows:

- Whether the Board of Directors has passed a resolution for Non- Acceptance of any public deposits;
- Whether the Company has accepted any Public Deposit during the year/period ; and
- Whether the Company has complied with the prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts etc.

4.43 In addition, for Systemically Important NBFCs (NBFC-SI-ND), the auditor also needs to comment on the correctness of Capital Adequacy Ratio (CAR) and conformity / compliance with the minimum Capital to Risk Assets

(CRAR), disclosed in the return submitted to the RBI in Form NBS 7; and the adherence to timelines for furnishing NBS 7.

4.44 Additionally, the following matters are to be reported by the auditors to Board of Directors of deposit taking NBFCs:

- Whether public deposits (including unsecured non-convertible debentures/bonds and deposits from public/ shareholders in case of a public limited company) accepted are within the limits prescribed under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998. (Referred to as Public Deposits Directions) ;
- If the deposits accepted are in excess of limits prescribed above, whether the same has been regularized as per Public Deposit Directions;
- Whether an Assets Finance Company (AFC) having a CRAR less than 15% or an Investment Company or Loan Company is accepting Deposits without Minimum Investment Grade Credit Rating from an approved credit rating agency.
- Whether the company has complied with the prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, and concentration of credit/investments as specified in the Directions issued by the RBI in terms of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- Whether the credit rating is in force and deposits outstanding at any point of time during the year was within the limit prescribed by rating agency;
- Whether the company has defaulted in payment of interest and principal to depositors when such interest and/or principal became due. Asset classification,

provisioning for bad and doubtful debts and so on have been complied with;

- Whether the company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 45-IB of the Act.

- Whether there has been any non-compliance with Chapter III- B of RBI Act, the Non- Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions 1998 and the Non- Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

4.45 In addition, Exception Reporting i.e. reporting only on instances of non-compliances is required to be made to the RBI for modified audit opinions, or comments on the specified matters. The auditor of NBFC should also be familiar with Chapter IIIB of the RBI Act and the notifications issued thereon.

4.46 The auditor should be aware of the RBI directions on auditors' report and any amendments therein.

4.47 While issuing certificates and reports other than the audit report, the auditor should consider the requirements of Guidance Note on Audit Reports and Certificates for Special Purposes issued by the ICAI.

Appendices B and C to this Guide contain specified audit report and other reporting templates for the benefit of users.

Chapter 5
Areas of Audit Concern

5.1 The auditor has to identify the assertions that are ordinarily of particular importance in relation to the typical items in a NBFC's financial statements. The following paragraphs describe some of the audit considerations that the auditor must be aware of to plan substantive procedures and suggest some of the techniques that could be used in relation to the items selected by the auditor for testing. The procedures do not represent an exhaustive list of procedures that needs to be performed, nor do they represent a minimum requirement that should always be performed.

5.2 Following are the key areas which the auditor must be aware of while conducting the audit of NBFCs.

Balances with Banks

5.3 The auditor should consider third party confirmations of the balance as persuasive audit evidence.

5.4 The auditor should understand and evaluate key controls in place to assess the operating effectiveness of key controls, on sample basis test check bank reconciliations and perform cut-off procedures.

5.5 The auditor should consider whether the balances with other NBFCs as at the date of the financial statements represent bona fide commercial transactions or whether any significant variation from normal or expected levels reflects transactions entered into primarily to give a misleading impression of the financial position of the NBFC or to improve liquidity and asset ratios (often known as "window-dressing").

Money Market Instruments

5.6 The auditor should consider the need for physical inspection or confirmation with external custodians and the reconciliation of the related amounts with the accounting records.

5.7 The auditor should consider the feasibility of checking the receipt of the related income as a means of establishing ownership. The auditor must pay particular attention to establishing the ownership of instruments held in bearer form. The auditor also should consider whether there are any encumbrances on the title to the instruments.

5.8 The auditor should test for the existence of sale and forward repurchase agreements for evidence of unrecorded liabilities and losses.

5.9 The auditor should consider the appropriateness of the valuation techniques including estimates as employed by management.

5.10 The auditor should consider whether there is a need to test for accrual of income earned on money market instruments, which in some cases is through the amortization of a purchase discount.

5.11 The auditor also should consider whether:

- The relationship between the types of securities owned and the related income is reasonable; and
- All significant gains and losses from sales and revaluations have been reported in accordance with the financial reporting framework (for example, where gains and losses on trading securities are treated differently from those on investment securities).

Other Financial Assets

5.12 The auditor should examine the underlying documentation supporting the purchase of such assets/sale in order to determine whether all rights and obligations, such as warranties and options, have been properly accounted for.

5.13 Additionally, the auditor should consider the appropriateness of the valuation techniques employed.

Since there may not be established markets for such assets, it may be difficult to obtain independent evidence of value. Additionally, even where such evidence exists, there may be a question as to whether there is sufficient depth to existing markets to rely on quoted values for the asset in question and for any related off setting hedge transactions that the NBFC has entered into in those markets. The auditor should also consider the nature and extent of any impairment reviews that management has carried out and whether their results are reflected in the assets' valuations

Investments

A. Securities Held-for-trading Purposes

5.14 In respect of investments held for trading, the auditor needs to consider the internal control considerations and audit procedures in respect of trading operations. Another important consideration would be to ensure that these are consistent with the investment policy of the company.

5.15 The auditor should consider physical inspection of securities or confirmation with external custodians and the reconciliation of the amounts with the accounting records.

5.16 The auditor should consider the feasibility of checking for receipt of the related income as a means of establishing ownership. The auditor must pay particular attention to establishing the ownership of securities held in bearer form. The auditor also should consider whether there are any encumbrances on the title to the securities.

B. Portfolio Investments

5.17 In many cases the audit of a NBFC's portfolio investments does not differ from the audit of portfolio investments held by any other entity. However, there are some special aspects that need to be considered in respect of NBFC's. The auditor should verify whether the NBFC has any statutory requirement for maintenance of certain portfolio of Investments.

5.18 The auditor should consider the value of the assets supporting the security value, particularly in respect of securities that are not readily marketable. The accounting norms of the investment may require that the depreciation, if any, in each scrips shall be fully provided for and appreciation, if any shall be ignored in accordance with RBI regulation and Indian Generally Accepted Accounting Principles (IGAAP). Rather, the auditor should also consider the nature and extent of any impairment reviews that management has carried out and whether their results are reflected in the assets' valuations.

C. Accounting for Investments

5.19 The auditor should consider the RBI prudential norms guidelines with regard to accounting for investments. The requirements are summarised below:

i) The Board of the Company should frame investment policy and implement the same.

ii) The criteria to classify the investments as current investments and long term investments should be clearly spelt out.

iii) The aforesaid classification should be made at the time of making the investments

iv) There should not be inter-class transfer on adhoc basis and if necessary, it should be done only at the beginning of each half year with the approval of the Board and the transfer should be scripwise at book value or market value, whichever is lower. Depreciation, if any, in each scrip shall be provided and appreciation, if any, should be ignored and there should not be netting off of any gain in one scrip against depreciation in another scrip.

v) Quoted current investments should be grouped under the following categories

(a) Equity shares,

(b) Preference shares,

(c) Debentures and bonds,

(d) Government securities including treasury bills,

(e) Units of mutual fund, and

(f) Others.

vi) Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

vii) Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. However, non-banking financial companies may substitute fair value for the breakup value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.

viii) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.

ix) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

x) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

xi) Commercial papers shall be valued at carrying cost.

xii) A long term investment shall be valued in accordance with the Accounting Standard.

xiii) Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

Table C: Valuation of Securities

Financial reporting frameworks often prescribe different valuation bases for securities depending on whether they are held for trading purposes, held as portfolio investments, or held for hedging purposes. For example, a financial reporting framework might require trading securities to be carried at market value, portfolio investments at historic cost subject to impairment reviews, and hedging securities on the same basis as the underlying assets they hedge.

Management's intentions determine whether any particular security is held for a given purpose, and hence the valuation basis to be used. If management's intentions change, the valuation basis changes too. Accordingly, when securities have been transferred from one category to another, the auditor needs to obtain sufficient appropriate audit evidence to support management's assertions as to their revised intentions. The possibility of changing an asset's categorization provides management with an opportunity for fraudulent financial reporting, as it would be possible to recognize a profit or avoid recognizing a loss by changing the categorization of particular security/securities.

The auditor also should consider whether to re-perform the valuation calculations and the extent of tests of the controls over the NBFC's valuation procedures. Additionally, the auditor should also consider whether:

- The relationship between the types of securities owned and the related income is reasonable; and
- All significant gains and losses from sales and revaluations have been reported in accordance with the financial reporting framework (for example, where gains and losses on trading securities are treated differently from those on investment securities).

D. Investments in Subsidiaries and Associated Entities

5.20 In many cases the audit of a NBFC's investments in subsidiaries and associated entities does not differ from the audit of such investments held by any other entity.

5.21 The auditor should consider the implications of any legal or practical requirement for the NBFC to provide future financial support to ensure the maintenance of operations (and hence the value of the investment) of subsidiaries and associated companies. The auditor should consider whether the related financial obligations are appropriately recorded in the NBFC books.

5.22 The auditor should determine whether appropriate adjustments are made when the accounting policies of subsidiaries/associates accounted for on an equity basis or consolidated do not conform to those of the NBFC.

Table D: Impairment/Estimates

A.	**Factors that may indicate an impairment condition**
a)	the decline in fair value is attributable to specific adverse conditions affecting a particular investment.
b)	the decline in fair value is attributable to specific conditions, such as conditions in an industry or in a geographic area, rather than to general market conditions.

c) management does not possess both the intent and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

d) the decline in fair value has existed for an extended period of time.

e) dividends have been reduced or eliminated, or scheduled interest payments on debt securities have not been made.

f) the financial condition of the issuer has deteriorated.

g) market values have declined. Consider performing the following, if available.

   i. test, to an extent based on materiality and inherent risk, the market values of investments by comparing the market value to their sources. Sources for market values include:

      - obtain market quotations for investments listed on national exchanges or over-the-counter markets from sources such as financial publications or the exchanges;
      - for certain other investments, market quotations may be obtained from broker-dealers who are market makers in those investments; and
      - if quoted market prices are not available, the estimate of fair value should be based on the best information available in the circumstances. The estimate of fair value should consider prices for similar assets and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis.

   ii. determine whether any decline in value below cost is properly reflected in the financial statements where appropriate; and

iii. if appropriate, consider the need for use of specialists to determine the market value of certain investments. Consider steps in the audit area "Use of the work of experts."

B. Valuation and Disclosure of Long Term Investments

1. The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence for valuation and disclosure of long term investments in accordance with the financial reporting framework.
2. When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure.
3. Other procedures would ordinarily include:
   a) In the case of quoted securities, considering related financial statements and other information, such as market quotations, which provide an indication of value and comparing such values to the carrying amount of the investments up to the date of the auditor's report.
   b) In case of unquoted securities, ascertaining the method adopted by the entity for determining the value of such securities as at the year end. The auditor should examine whether the method adopted by the entity is one of the recognised methods of valuation of securities such as Profit Earning capacity Value method [PECV], Break-up value method, Capitalization of yield method, Yield to maturity method, etc.
   c) In the case of investments other than in the form of securities, ensuring that the market value has been ascertained on the basis of authentic market reports, and /or based on expert's opinion, if

warranted.

d) If such values do not exceed the carrying amounts, the auditor should consider whether a write-down is required. If there is an uncertainty as to whether the carrying amount will be recovered, the auditor should consider whether appropriate adjustments and/or disclosures have been made.

C. Management Representations

The auditor should obtain written representation from management concerning:

(a) The completeness of information provided regarding valuation and disclosure of long term investments.

(b) The valuation of long term investments in the financial statements including adequacy of provision for diminution in such values, wherever required.

5.23 The auditor should be aware of the restrictions imposed on the kind of investments and the limits for such investments. These are usually prescribed in the prudential norms guidelines for NBFCs issued by RBI.

5.24 Presently RBI, vide its circular for prudential norms, has imposed following restrictions on investments:

a) Restriction on investments in land and building and unquoted shares: This restriction is in respect of an asset finance company or a loan company or investment company which is accepting public deposits. The regulations prohibit the asset finance company from investing in land and buildings as well as unquoted shares beyond 10 % of its owned fund. Those which were acquired in satisfaction of debts shall be disposed off within a period of three years or within such period as extended by RBI. However investment in an insurance company is not considered in the restriction imposed by RBI with respect to ceiling on investment in unquoted shares.

b) No non-banking financial company shall,

   (i) lend to

      (a) any single borrower exceeding fifteen per cent of its owned fund; and

      (b) any single group of borrowers exceeding twenty five per cent of its owned fund;

   (ii) invest in

      (a) the shares of another company exceeding fifteen per cent of its owned fund; and

      (b) the shares of a single group of companies exceeding twenty five per cent of its owned fund;

   (iii) lend and invest (loans/investments taken together) exceeding

      (a) twenty five per cent of its owned fund to a single party; and

      (b) forty per cent of its owned fund to a single group of parties.

RBI has provided certain relaxations from this requirement. (Refer Paragraph 2.23)

Notes:

(1) For determining the limits, off-balance sheet exposures shall be converted into credit risk by applying the conversion factors as illustrated in paragraph 2.17.

(2) The investments in debentures for the purposes specified in this paragraph shall be treated as credit and not investment.

(3) These ceilings shall be applicable to the credit/investment by such a non-banking financial company to companies/firms in its own group as well as to the borrowers/ investee company's group.

Loans

5.25 The auditor should consider the loan booking, approval and disbursement process, subsequent collections and collateral management. The auditor should also consider the appropriateness of the provision for loan. The auditor should understand the laws and regulations that may influence the amounts determined by management. RBI's prudential norms provide guidance to NBFCs on recognition and measurement of loans, establishment of loan loss provisions, credit risk disclosure in financial statements and related matters. It sets out views on sound loan accounting and disclosure practices and so may influence the financial reporting framework within which a NBFC prepares its financial statements.

5.26 The major audit concern is the adequacy of the recorded provision for loan losses. In establishing the nature, extent and timing of the work to be performed, the auditor should consider the following factors:

- Know Your Client/Customer (KYC) procedures performed.
- Credit approval process including authorisation.
- Loan documentation obtained from the existing/prospective borrower, test check the documents for borrower's financial position/ credit worthiness.
- Internal credit rating assigned to borrower.
- Credit monitoring by credit committee.
- Scope and extent of work performed by Internal Audit department.
- Collateral coverage (if any).
- Given the relative importance of foreign lending, the auditor should ordinarily examine:
    - The information on the basis of which the NBFC assesses and monitors the country risk and the criteria (for example, specific classifications and valuation ratios) it uses for this purpose; and

  - Whether and, if so, by whom credit limits are set for the individual countries, what the limits are and the extent to which they have been reached.

- The auditor is also required to verify whether there has been any window dressing/ ever greening i.e., sanction of new loans to repay an existing doubtful loan. This method may be resorted to by the NBFC to cover up bad loans.

Accounts with Depositors

A. General

5.27 The auditor should assess the system of internal control over accounts with depositors. The auditor should also consider performing confirmation and analytical procedures on average balances and on interest expense to assess the reasonableness of the recorded deposit balances.

5.28 The auditor should determine whether deposit liabilities are classified in accordance with regulations and relevant accounting principles.

5.29 Where deposit liabilities have been secured by specific assets, the auditor should consider the need for appropriate disclosure.

5.30 The auditor should also consider the need for disclosure where the NBFC has a risk due to economic dependence on a few large depositors or where there is an excessive concentration of deposits due within a specific time.

B. Deposits in transit

5.31 The auditor should determine whether items in transit between branches, between the NBFC and its consolidated subsidiaries, and between the NBFC and counterparties, are eliminated and that reconciling items have been appropriately addressed and accounted for.

5.32 Additionally, the auditor should examine individual items comprising the balance that have not been cleared within a reasonable time period and should also consider whether the related internal control procedures are adequate to ensure that such items have not been temporarily transferred to other accounts in order to avoid their detection.

Capital and Reserves

5.33 Banking regulators pay close attention to a NBFC's capital and reserves in monitoring the level of a NBFC's activities and in determining the extent of its operations. Small changes in capital or reserves may have a large effect on a NBFC's ability to continue operating, particularly if it is near to its permitted minimum capital ratios. In such circumstances there are greater pressures for management to engage in fraudulent financial reporting by miscategorising assets and liabilities or by describing them as being less risky than they actually are.

5.34 The auditor should consider whether capital and reserves are adequate for regulatory purposes (for example, to meet capital adequacy requirements), the disclosures have been appropriately calculated and that the disclosures are both appropriate and in accordance with the applicable financial reporting framework. Auditors are required to report on a wide range of disclosures about the NBFC's capital and its capital ratios, either because that information is included in the financial statements or because there is requirement to make a separate report to regulatory supervisors.

5.35 In addition, where applicable regulations provide for restrictions on the distribution of retained earnings, the auditor should consider whether the restrictions are adequately disclosed and complied with.

Income Recognition

5.36 The financial reporting framework i.e. recognised accounting principles would guide the income recognition. For instance:

- ***Income including interest/discount or any other charges on NPA****:* shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.
- ***Hire purchase assets***, where instalments are overdue for more than 12 months (In the case of Deposit accepting or holding NBFCs and Systemically Important NBFCs the period is nine months for the financial year ending March 31, 2016, six months for the financial year ending March 31, 2017 and three months or more for the financial year ending March 31, 2018 and thereafter), income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.
- ***Leased assets****:* where lease rentals are overdue for more than 12 months (In the case of Deposit accepting or holding NBFCs and Systemically Important NBFCs the period is nine months for the financial year ending March 31, 2016, six months for the financial year ending March 31, 2017 and three months or more for the financial year ending March 31, 2018 and thereafter), the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit & loss account before the asset became non-performing and remaining unrealised shall be reversed.

- ***Income from investments**:* Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis. Provided where dividend has been declared by the corporate in its AGM, income can be recognised on accrual basis where the NBFC's right to receive the payment is established. However, income from securities, bonds, and debentures of corporate bodies and from Government securities/bond has to be accounted on an accrual basis provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

- ***Securitisation/Factoring/Assignment Transactions:*** The company primarily funds its operations through external term loans from banks and financial institutions. As a means of financing, the company enters into transactions like factoring, securitisation and assignment, with certain banks and financial institutions. The accounting in the instant case would be driven by the ICAI's Guidance Note on Accounting for Derivatives and the accounting standards. As per RBI guidelines, NBFC are required to have in place a Financial Asset Acquisition Policy which covers valuation of assets and in case of factorisation, reference can be made to the principles laid down in the Expert Advisory Committee Opinion. The 'assignment' transactions are usually different from both securitisation and factoring and are largely driven by the industry practice and the agreement. Some of the entities are in the practice of deferring the upfront gain/loss arising on the 'assignment of portfolio of receivables', at the same time others may be recognising it upfront. The assignment agreement plays an important role in determining the appropriate accounting and thus auditors are required to closely monitor those supplemented with a high level of documentation.

Table E: Complexity of Transaction

Perform the following with regard to the revenue recognition policies (perform in conjunction with sales/revenue audit area): • update understanding of the company's accounting policies for recording revenue; • determine whether the policy is consistent with prior years and is reasonable in light of the industry; • Determine whether the policy is consistent with regulatory requirements. In respect of deferred revenue balances at year-end obtain the desired level of assurance by performing the following: a) for selected account balances, examine supporting invoices and/or contracts and determine the products sold and/or services provided; b) based on the company's revenue recognition policies, verify the amount of revenue that should be deferred and amortized at year-end for the particular products sold and/or services provided; and c) test to ensure that the deferred revenue balance was recorded at the appropriate amount by tracing to the detailed deferred revenue listing. Where significant comfort has been obtained from controls, review the results of analytical procedures and the results of test of controls and, where appropriate, select account balances and test deferred revenue balances at year-end by performing steps (a) to (c) above. In case of complex transaction, where no financial reporting guidelines exist, auditor needs to be extra careful while discharging his obligation and he may resort to following approach • Exercise due care in evaluating the terms of the agreement entered between the Banks/FIs and the company to understand vesting of the rights, title and

interest of the loan portfolio is assigned to the purchaser (i.e. the Bank/FI) by the company. Understanding the roles & responsibilities of the company post assignment agreement i.e. whether the company is acting only as a "Collection Agent".

- Giving due consideration to diverse industry practices.
- In absence of any reporting guidelines prescribed, it would be appropriate to draw reference to the existing generally accepted accounting principles.
- Evaluating whether based on the agreement it would be appropriate to de-recognise the portfolio on the assignment as the company transfer the associated risk and reward and show the collateral amount as "receivable" under "current asset".
- In case where the company does not retain any effective control and substantial risk/reward has been transferred to the assignee and is acting as collection agent, whether income or loss arising on assignment of portfolio have been recognised upfront.
- Extent of disclosures given in the financial statements and whether it can be concluded to be appropriate.

RBI prudential norms for income recognition, classification as NPAs

5.37 RBI issues guidelines containing norms for recognition of income, provisioning for bad debts and classification of such debts in the financial statements of NBFCs, investment valuation, accounting for investments, capital adequacy norms etc. The master circulars issued by RBI consolidate all the circulars issued on various aspects regulated by RBI.

5.38 The auditor is required to be fully aware of the provisions of the Prudential Norms directions of RBI. Some of such RBI's prudential norms directions are given below:

1. Mortgage Guarantee Companies Prudential Norms (Reserve Bank) Directions, 2008.
2. Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.
3. Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.

The links to aforesaid circulars are given in the **Appendix F** to this Guide. These circulars can also be downloaded from RBI website (**www.rbi.org.in**). This Appendix also contains other Master Circulars for easy reference together with link through which full text of the circulars can be accessed.

5.39 The provisions relating to classification of assets is briefly given below:

An assets shall be classified under the defined head as per RBI directions.

1) Standard Asset:

Standard asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

2) Sub Standard Assets:

An asset which has been classified as non-performing asset for a period not exceeding 18 months;

Provided that the period 'not exceeding 18 months' stipulated in this sub-clause shall be 'not exceeding 16 months' for the financial year ending March 31, 2016; 'not exceeding 14 months' for the financial year ending March 31, 2017; and 'not exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

3) Doubtful Assets

a. a term loan, or

b. a lease asset, or

c. a hire purchase asset, or

d. any other asset,

which remains a sub-standard asset for a period 'exceeding 18 months' for the financial year ended March 31, 2015; 'exceeding 16 months' for the financial year ended March 31, 2016; 'exceeding 14 months' for the financial year ending March 31, 2017 and 'exceeding 12 months' for the financial year ending March 31, 2018 and thereafter.

4) Loss Assets

(a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

Restructuring Norms

5.40 A restructured account is one where the NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the NBFC would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons).

5.41 Any change in the terms due to financing difficulty of the borrower or borrower cannot make payment on existing terms will be termed as restructuring for the purpose mentioned above.

5.42 However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly will not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as 'restructured accounts'.

5.43 Further in case where there are changes in the loan repayment terms like EMI, tenor or interest rate which is in normal course of business and that facility is available to all borrowers uniformly than it will not be termed as restructuring of the loan facility.

5.44 In the cases of roll-over of short term loans, where proper pre-sanction assessment has been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these might not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then third roll-over onwards the account would have to be treated as a restructured account. Besides, NBFCs should be circumspect while granting such facilities as the borrower may be availing similar facilities from other banks / creditors in the consortium or under multiple banking. Further, short term loans for the purpose of this provision do not include properly assessed regular working capital loans like revolving cash credit or working capital demand loans.

Assets Classification upon Restructuring

5.45 Once the account is restructured as discussed its classification will get change as below:

1. If a standard asset is restructured the accounts should be immediately reclassified as 'sub-standard assets' upon restructuring.
2. The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.
3. Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the NBFC should be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

Income Recognition Norms on Restructured Assets

5.46 Interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

Provision on Restructured Advances

5.47 An NBFC shall create provision as per the restructuring guidelines given in the restructuring schedule Notification No.DNBS(PD).No.272 / CGM(NSV)-2014 dated January 23, 2014.

Special Mention Accounts

5.48 RBI issued a circular dated March 21, 2014 and updated time to time which would be fully effective from April 1, 2014, has outlined a corrective action plan that will incentivize early identification of problem account, timely restructuring of accounts which are considered to be viable, and taking prompt steps by lenders for recovery or sale of unviable accounts.

5.49 The said circular states for corrective action plan to arrest increasing of NPA cases means to identify accounts based on early recognition of stress and Reporting to Central Repository of Information on Large Credits (CRILC).

5.50 However, as soon as an account is reported as SMA - 2 as per the circular by one or more lending banks/notified NBFCs, this will trigger the mandatory formation of a Joint Lenders' Forum (JLF) and formulation of Corrective Action Plan (CAP) as envisioned in Para 2.3 of the Framework.

5.51 Please refer the circular for the above discussion 'Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy' issued dated March 21, 2014.

Foreign Direct Investment & External Commercial Borrowings (ECBs)

a. Foreign Direct Investment

Link:
http://dipp.nic.in/English/Policies/FDI_Circular_2015.pdf

(Auditor should refer the most recent circular from the website: www.dipp.nic.in)

5.52 NBFCs can avail 100 % FDI through automatic route subject to the following conditions

a) Minimum capitalization norms for fund based NBFCs - US$ 0.5 million to be brought upfront for FDI up to 51%; US$ 5 million to be brought upfront for FDI above 51% and up to 75%; and US$ 50 million out of which US$ 7.5 million to be brought upfront and the balance in 24 months, for FDI beyond 75% and up to 100%.

b) Minimum capitalization norms for non-fund based NBFC activities- US$ 0.5 million, subject to the condition that such company would not be allowed to set up any subsidiary for any other activity nor it can participate in the equity of NBFC holding / operating company. Non-fund based activities would include Investment Advisory services, financial consultancy, forex broking, money changing business and credit rating agencies.

c) Joint venture operating NBFCs that have 75% or less than 75% foreign investment will also be allowed to set up subsidiaries for undertaking other NBFC activities subject to the subsidiaries also complying with the applicable minimum capital inflow.

d) NBFCs having foreign investment more than 75% and upto 100% and with a minimum capitalisation of USD 50 million, can set up step down subsidiaries for NBFC activities, without any restriction on number of operating subsidiaries and without bringing in additional capital. The minimum captialisation norms shall not apply to downstream subsidiaries.

e) Under the Foreign Direct Investments (FDI) Scheme, investments can be made in shares, compulsorily and mandatorily and fully convertible debentures and compulsorily and mandatorily and fully convertible preference shares of an Indian company by non-residents through two routes:

   i. Automatic Route: Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment. However there are restrictions on the activities can be undertaken by the NBFC as mentioned in circular attached above.

   ii. Approval Route: Under the Approval Route, the foreign investor or the Indian company should obtain prior approval of the Government of India (Foreign Investment Promotion Board (FIPB), Department of Economic Affairs (DEA), Ministry of Finance or Department of Industrial Policy & Promotion, as the case may be) for the investment.

f) Compliance with the guidelines of the RBI.

b. External Commercial Borrowings

Link:
https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9840

Automatic route

5.53 Infrastructure Finance Companies (IFCs) for on-lending to the infrastructure sector, Asset Finance Companies (AFCs) are eligible to raise ECB through automatic route. Asset Finance companies are permitted to avail ECBs for financing the import of infrastructure equipment for leasing to infrastructure projects.

5.54 NBFC-MFIs complying with the norms prescribed as per Circular DNBS.CC.PD.No. 250/03.10.01/2011-12 dated December 02, 2011 are also eligible to raise ECB. Holding Companies / Core Investment Companies (CICs) coming under the regulatory framework of the Reserve Bank are permitted to raise ECB for project use in Special Purpose Vehicles (SPVs) provided the business activity of the SPV is in the infrastructure sector where “infrastructure” is defined as per the extant ECB guidelines. The infrastructure project is required to be implemented by the SPV established exclusively for implementing the project and is subject to conditions. In case of Holding Companies that come under the Core Investment Company (CIC) regulatory framework of the Reserve Bank, the ECB availed should be within the ceiling of leverage stipulated for CICs and in case of CICs with asset size below Rs. 100 crore, the ECB availed of should be on fully hedged basis.

5.55 NBFC-IFCs can avail of ECB up to 75 per cent of their owned funds (ECB including all outstanding ECBs) and must hedge 75 per cent of their currency risk exposure.

5.56 NBFC-AFCs can avail of ECBs up to 75 per cent of their owned funds (ECB including all outstanding ECBs) subject to a maximum of USD 200 million or its equivalent per financial year with a minimum maturity of 5 years and must hedge the currency risk exposure in full.

5.57 Issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort by banks, Financial Institutions and Non-Banking Financial Companies (NBFCs) from India relating to ECB is not permitted.

Approval route

5.58 The following types of proposals for ECB are covered under the Approval Route:

a) ECB beyond 75 per cent of the owned funds (including outstanding ECBs) by financial institutions which are classified as Infrastructure Finance Companies for on-lending to the infrastructure sector are considered on a case to case basis.

b) NBFCs-AFCs are permitted to avail of ECB, beyond 75 per cent of their owned funds (including outstanding ECBs) to finance the import of infrastructure equipment for leasing to infrastructure projects.

c) NBFCs, through approval route, are eligible borrowers for ECB with minimum average maturity of 5 years from multilateral financial institutions, reputable regional financial institutions, official export credit agencies and international banks to finance import of infrastructure equipment for leasing to infrastructure projects.

Chapter 6
Operations of an NBFC

Treasury Operations

6.1 Treasury operations, in this context, represent all activities relating to the purchase, sale, borrowing and lending of financial instruments. Financial instruments may be securities, money market instruments or derivative instruments. Investment companies/NBFCs usually enter into such transactions for their own use (for example, for the purpose of hedging risk exposures) or for meeting customers' needs. They also carry out, to a larger or smaller extent, trading activities. Trading may be defined as the purchase and sale (or origination and closing) of financial instruments (including derivatives) with the intention of deriving a gain from the change in market price parameters (for example, foreign exchange rates, interest rates, equity prices) over time. NBFCs manage and control their treasury activities on the basis of the various risks involved rather than on the basis of the particular type of financial instrument dealt with. The auditor is required to consider the audit implications of derivatives acquired by the entities.

6.2 The auditor needs to check that the NBFC/ Investment companies have well documented investment policy describing the nature of treasury operations proposed to be undertaken by the company as well as setting out the limits / authorisation for such operations.

Internal Controls in treasury operations

6.3 The auditor should obtain an understanding of internal controls in treasury operations. The auditor should look out for significant risks that may arise on account of significant non routine transactions or judgmental matters. Such risks could exist because of greater management intervention to specify the accounting treatment or greater manual intervention for data collection and processing. Generally, treasury operations involve transactions that are recorded in IT systems. The identification of IT dependencies and the evaluation of related IT risks is an integral part of the audit process. Information technology general controls (ITGC) are used to manage the IT activities and computer environment. ITGC policies and procedures relate to many applications and support the effective functioning of IT dependencies. IT dependencies include automated control procedures or manual controls that are dependent on IT, system generated reports, calculations within automated applications, security that facilitates the segregation of duties and automated interfaces among applications. ITGCs help auditors to determine the continued reliability of information generated by applications and check for consistency in operations of automated applications.

General audit procedures

6.4 Certain audit procedures apply to the environment in which treasury activities are carried out. To understand this environment, the auditor initially should obtain an understanding of the scale, volume, complexity and risk of treasury activities. The auditor is required to understand the importance of treasury activities relative to other business of the NBFC and should understand the framework within which the treasury activities take place.

6.5 Once the auditor has obtained this understanding and has performed tests of controls with satisfactory results, the auditor should ordinarily assess the accuracy of the recording of transactions entered into during the period and related profits and losses:

- by reference to deal tickets and confirmation slips;
- the completeness of transactions and proper reconciliation between the front office and accounting systems of open positions at the period end;

- the existence of outstanding positions by means of third party confirmations at an interim date or at the period end;
- the appropriateness of the exchange rates, interest rates or other underlying market rates used at the period end date to calculate unrealized gains and losses;
- the appropriateness of the valuation models and assumptions used to determine the fair value of financial instruments outstanding as at the year end; and
- the appropriateness of the accounting policies used particularly around income recognition and the distinction between hedged and trading instruments.

Relevant aspects of treasury operations that generally pose increased audit risks are addressed below:

Changes in products or activities

6.6 Particular risks often arise where new products or activities are introduced. To address such risks the auditor should initially seek to confirm that predefined procedures are in place for these cases. Generally, the entity should commence such activities only when the smooth flow of the new transactions through the controls system is ensured, the relevant IT systems are fully in place (or where adequate interim system support is in place) and the relevant procedures are properly documented. Newly traded instruments are ordinarily subject to careful review by the auditor, who should initially obtain a list of all new products traded during the period (or a full list of all instruments transacted). Based on this information, the auditor should establish the associated risk profile and seeks to confirm the reliability of the internal control and accounting systems.

Reliance on Computer Experts

6.7 Due to the volume of transactions, virtually all NBFCs/investment companies support the treasury transactions cycle using IT systems. Due to the complexity of systems in use and the procedures involved, the auditor should ordinarily seek the assistance of IT experts to supply appropriate skills and knowledge in the testing of systems and relevant account balances.

Purpose for which transactions are undertaken

6.8 The auditor should consider whether the NBFC holds speculative positions in financial instruments or hedges them against other transactions. The purpose for entering such transactions, whether hedging or trading, should be identified at the inception stage in order for the correct accounting treatment to be applied. Where transactions are entered for hedging purposes, the auditor should consider the appropriate accounting treatment and presentation of such transactions and the matched assets/liabilities, in accordance with relevant accounting requirements.

Valuation Procedures

Table F: Determination of Value of Instruments

The auditor might test all portfolio valuations as of the date of the financial statements. The auditor might test transactions on dates selected from the period under audit for agreement with the values computed by the company. The extent of those tests should be based on the auditor's judgment after considering the tolerable misstatement, the assessed risk of material misstatement, and the degree of assurance the auditor plans to obtain.

When investments are valued by the investment company using a valuation model (including an internally developed matrix pricing model), the auditor should obtain an understanding of the entity's process for determining fair value, including:

- controls over the process used to determine fair value measurements, including, for example, controls over data and the segregation of duties between investment management functions and those responsible for undertaking the valuations;

- the expertise and experience of those determining fair value measurements;
- the role of information technology in the valuation process, including the integrity of change controls and security procedures for valuation models and information systems;
- significant assumptions used in determining fair value, as well as the process used to develop and apply management's assumptions, including whether management used available market information in order to develop the assumptions;
- documentation supporting management's assumptions; and
- controls over the consistency, timeliness, completeness and reliability of data used in valuation models.

The role of the company's board of directors in establishing valuation policies, and the conformity of the model with those policies and the rules or regulatory authorities should be considered.

6.9 Where the entity has adopted Accounting Standard (AS) 30, "Financial Instruments" both the balance sheet items and off-balance sheet financial instruments are ordinarily valued at market or fair value, except for those financial instruments which are used for hedging purposes, which, under many financial reporting frameworks, are valued on the same basis as the underlying item being hedged. Where market prices are not readily available for an instrument, financial models that are widely used by the banking industry may be used to determine the fair value. In addition to disclosure of the notional amounts of open positions, the disclosure may be required of the potential risk arising, as for example, the credit risk equivalent and replacement value of such outstanding instruments.

6.10 The auditor should ordinarily test the valuation models used, including the controls surrounding their operation, and considers whether details of individual contracts, valuation rates and assumptions are appropriately entered into such models. Many of these instruments/ contracts have evolved in the recent past and hence, while testing their valuation, the auditor should bear the following factors in mind:

- There may be no legal precedents concerning the terms of the underlying agreements. This makes it difficult to assess the enforceability of those terms.
- There may be a relatively small number of management personnel who are familiar with the inherent risks of these instruments. This may lead to a higher risk of misstatements occurring and a greater difficulty in establishing controls that would prevent misstatements or detect and correct them on a timely basis.

6.11 Some of these instruments have not existed through a full economic cycle (bull and bear markets, high and low interest rates, high and low trading and price volatility) and it may therefore be more difficult to assess their value with the same degree of certainty as for more established instruments. Similarly, it may be difficult to predict with a sufficient degree of certainty the price correlation with other offsetting instruments used by the NBFC to hedge its positions.

6.12 There can be situations when the market conditions are not normal leading to high volatility in valuation rates. The models used for valuing such instruments may not operate properly in such conditions. The complexity of certain instruments requires specialised skill and knowledge. If the auditor does not have the professional competence to perform the necessary audit procedures, advice is sought from experts in this field.

6.13 A further issue of particular interest to the auditor is transactions entered into at rates outside the prevailing market rates; these often involve the risk of hidden losses or fraudulent activity. The auditor should obtain sufficient appropriate audit evidence concerning the reliability of such rates. The auditor should consider reviewing a sample of the identified transactions.

The Credit Function

6.14 The credit function may conveniently be divided into the following categories:

- Origination and disbursement.
- Monitoring.Collection.
- Periodic review and evaluation.

Origination and Disbursement

6.15 The auditor should consider whether the NBFC has obtained complete and informative loan applications, including financial statements of the borrower, the source of the loan repayment and the intended use of proceeds. For this purpose NBFC should have written guidelines as to the criteria to be used in assessing loan applications (for example, interest coverage, margin requirements, debt-to-equity ratios etc.). Where required the NBFC should obtain credit reports or have independent investigations conducted on prospective borrowers.

6.16 The auditor has to verify whether the entity has procedures in place to ensure that related party lending has been identified.

Planning

6.17 The auditor should obtain knowledge and understanding of the entity's method of controlling credit risk. This includes matters such as the following:

- The NBFC's exposure monitoring process and its system for ensuring that all connected party lending has been identified and aggregated.
- The NBFC's method for appraising the value of exposure, collateral and for identifying potential and definite losses.

The NBFC's lending practices and customer base

6.18 The auditor should consider whether the exposure review program ensures independence from the lending functions including whether the frequency is sufficient to provide timely information concerning emerging trends in the portfolio and general economic conditions and whether the frequency is increased for identified problem credits.

6.19 The auditor should consider the qualifications of the personnel involved in the credit review function. The industry is changing rapidly and fundamentally creating a lack of qualified lending expertise. The auditor should consider whether credit review personnel possess the knowledge and skills necessary to manage and evaluate lending activities.

6.20 The auditor should consider, through information previously generated, the causes of existing problems or weaknesses within the system. The auditor should consider whether these problems or weaknesses present the potential for future problems. The auditor should review management reports and should consider whether they are sufficiently detailed to evaluate risk factors.

6.21 It is difficult to define and audit related party lending transactions because the transactions with related parties are not easily identifiable. Reliance is primarily upon management to identify all related parties and related-party transactions and such transactions may not be easily detected by the NBFC's internal control systems. The auditor should obtain an understanding as to how management identifies, records and monitor related party transactions. The auditor should challenge management's process and test key controls in identification, accounting and reporting of related party transactions.

Tests of control

6.22 The auditor should obtain a knowledge and understanding of the NBFC's method of controlling credit risk. This includes matters such as:

- The portfolio exposure and the various features and characteristics of the exposures;
- The exposure documentation used by the investing company;
- What constitutes appropriate exposure documentation for different types of exposures; and
- The entity's procedures and authority levels for granting an exposure.

6.23 The auditor should review the lending policies and consider:

- Whether the policies are reviewed and updated periodically to ensure they are relevant with changing market conditions; and
- Whether those charged with governance have approved the policies and whether the NBFC is in compliance with policies.

6.24 The auditor should examine the exposure review reporting system, including credit file memoranda and an annual schedule or exposure review plan, and should consider whether it is thorough, accurate and timely and whether it will provide sufficient information to allow management to both identify and control risk. The auditor should consider whether the reports include:

- Identification of problem credits;
- Current information regarding portfolio risk; and

- Information concerning emerging trends in the portfolio and lending areas.

6.25 The auditor should consider the nature and extent of the scope of the exposure review, including the following:

- Method of exposure selection.
- Manner in which exposures are reviewed including:
  - An analysis of the current financial condition of the borrower which addresses repayment ability, and
  - Tests for documentation exceptions, policy exceptions, non-compliance with internal procedures, and violations of laws and regulations.

6.26 The auditor should consider the effectiveness of the credit administration and portfolio management by examining the following:

- Management's general lending philosophy in such a manner as to elicit management responses;
- The effect of credits not supported by current and complete financial information and analysis of repayment ability;
- The effect of credits for which exposure and collateral documentation are deficient;
- The volume of exposures improperly structured, for example, where the repayment schedule does not match exposure purpose;
- The volume and nature of concentrations of credit, including concentrations of classified credits.(NPAs)
- The appropriateness of transfers of low quality credits to or from another affiliated office.
- The accuracy and completeness of credit monitoring reports.
- Competency of senior management and credit department personnel.

Substantive procedures

6.27 The auditor should consider the extent of management's knowledge of the NBFC's own credit exposure problems through selective exposure file reviews. Selection criteria include the following:

- Accounts with an outstanding balance equal to or greater than a specified amount.
- Accounts on a "Watch List" with an outstanding balance in excess of a specified amount.
- Accounts with a provision in excess of a specified amount.
- Accounts that are handled by the department that manages the higher risk accounts.
- Accounts where principal or interest of more than a specified amount is in arrears for more than a specified period.
- Accounts where the amount outstanding is in excess of the authorized credit line/limit.
- Accounts with entities operating in industries or countries that the auditor's own general economic knowledge indicates could be at risk.
- Problem accounts identified by the NBFC's regulatory authorities and problem accounts selected in the prior year.

6.28 In addition, where the NBFC's personnel have been requested to summarize characteristics of all exposures over a specified size grouped on a connection basis, the auditor should review the summaries. Exposures with the following characteristics may indicate a need for a more detailed review:

- Large operating loss in the most recent fiscal year.
- Sustained operating losses (for example, 2 or more years).

- A high leveraged facility (for example, debt equity ratio in excess of 2:1 - the ratio will vary by industry).
- Failure to comply with terms of agreements and covenants.
- Modified audit report.
- Information provided not current or complete.
- Advances significantly unsecured or secured substantially by a guarantee.
- Accounts where reviews not performed by NBFC management on a timely basis.

6.29 The auditor should select the exposures for detailed review from the exposure listings above using the sample selection criteria determined above and obtain the documents necessary to consider the collectability of the exposures. These may include the following:

- The exposure and security documentation files.
- Arrears listings or reports.
- Activity summaries.
- Previous doubtful accounts listings.
- The non-current exposure report.
- Financial statements of the borrower.
- Security valuation reports.

6.30 Using the exposure documentation file, the auditor should:

- Ascertain the exposure type, interest rate, maturity date, repayment terms, security and stated purpose of the exposure;
- Consider whether security documents bear evidence of registration as appropriate, and that the NBFC has received appropriate legal advice about the security's legal enforceability;

- Consider whether the fair value of the security appears adequate (particularly for those exposures where a provision may be required) to secure the exposure and that where applicable, the security has been properly insured. Critically evaluate the collateral appraisals, including the appraiser's methods and assumptions;
- Evaluate the collectability of the exposure and consider the need for a provision against the account;
- Determine whether the appropriate authority levels within the NBFC have approved the exposure application or renewal;
- Review periodic financial statements of the borrower and note significant amounts and operating ratios (that is, working capital, earnings, shareholders' equity and debt-to-equity ratios); and
- Review any notes and correspondence contained in the exposure review file. Note the frequency of review performed by the NBFC's staff and considers whether it is within NBFC guidelines.

6.31 In addition to assessing the adequacy of the provisions against individual exposures, the auditor should consider whether any additional provisions need to be established against particular categories or classes of exposures (for example, credit card exposures and country risk exposures) and assess the adequacy of any provisions that the NBFC may have established through discussions with management.

Chapter 7
Governance

7.1 The need for best practices and greater transparency, to protect the interests of the stake-holders in the corporate sector has led to the specification of Corporate Governance guidelines by RBI. Its universal applicability has no exception to the NBFCs which too are essentially corporate entities. Listed NBFCs which are required to adhere to listing agreement and rules framed by SEBI on Corporate Governance are already required to comply with SEBI prescriptions on Corporate Governance.

7.2 In order to enable NBFCs to adopt best practices and greater transparency in their operations certain guidelines have been proposed for consideration of the Board of Directors of the class of NBFCs.

7.3 Though it is not a duty of the auditor to ensure compliance with corporate governance norms, it would be appropriate for the auditor to understand the corporate governance structure of the NBFC. This may assist the auditor in communications with management and those charged with governance and also in evaluating the internal controls in the organisation.

7.4 RBI through revised regulatory framework has brought in additional disclosures and mandatory constitution of various committees by certain types of NBFCs.

Table H: Auditors may consider following with regard to internal governance and reporting

Audit Committee
• Review written audit committee charter.
• Sufficiency of length of audit committee meetings and level of discussion to accomplish the committee's

objectives.

- Understanding among audit committee, management, fund's chief compliance officer, internal auditors and independent auditors to provide constructive feedback on each other's performance, and identify improvements that can be made to enhance each party's effectiveness.
- Means used to keep current with fund industry, regulatory and auditing/ accounting/ tax developments affecting responsibilities of audit committee members (continuing education).
- Sufficiency of audit committee's relationships and meetings (general and private session) and other interactions with management, fund's chief compliance officer and internal and independent auditors.
- Mutual understanding among the audit committee, fund's chief compliance officer and internal and external auditors of expected communications about matters requiring special or immediate attention.
- Review/approve any written report/disclosure made in public filings of audit committee activities.
- Internal auditor's observations concerning:
    - internal control over financial reporting, including management's procedures for monitoring service providers' controls;
    - management's and service providers' ability to maintain adequate internal control over financial reporting during periods of higher growth and activity or increase in the number of funds or complexity of their investments; or, alternatively, due to cost reduction programs resulting from declining revenues and profitability;
    - communication protocols between fund accounting and reporting functions and other service providers;

  - errors in NAV/per share, their causes, and any corrective actions taken as a result;
  - areas where alternative or extended audit procedures were required because of inadequate records or controls; and
  - sufficiency and timeliness of improvements to internal control over financial reporting made as a result of recommendations provided in current or prior audits.

Internal Control over Compliance with Laws and Regulations

- Non-compliance with laws and regulations could have a material effect on financial statements:
  - scope of work performed or oversight or advice provided in such areas by management, compliance staff, internal and external counsel.
- Significant elements of the annual review of the fund's compliance program administered by its chief compliance officer, including (i) those elements pertaining to service providers; (ii) the nature and extent of forensic testing performed; and (iii) findings and any corrective actions taken or necessary to take.
- Significant changes in compliance policies and procedures.
- Status of any legal matters (if any) that could have a material effect on the financial statements.
- Procedures used to identify potential conflicts of interest and ways in which such circumstances are managed and disclosed.
- Unusual or non-recurring transactions affiliates, and/or other related parties, including nature and extent of related disclosures:
  - procedures for identifying and recording unusual

revenue items, such as litigation settlements.

- Identification and review of related party transactions and adequacy of disclosures.
- Nature and extent of information appearing in shareholder report outside of financial statements.
- Assurance that independent auditor received full cooperation from all parties relevant to the audit and no restrictions were placed on his work.

Board Committees

As part of harmonisation, the constitution of the three Committees of the Board and instructions with regard to rotation of partners have now been made applicable to all NBFCs-ND-SI, as also all NBFCs-D. Other NBFCs are encouraged to observe such practices, if already being followed.

In addition, the audit committee of all NBFCs-ND-SI, as also all NBFCs-D must ensure that an Information Systems Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the company.

Fit and Proper Criteria for Directors

With the increasing integration of NBFCs in the financial sector and their growing systemic significance, it has become important that the directors and shareholders who are responsible for steering the affairs of the companies are fit and proper, besides having the necessary qualifications. In view of this, the following additional requirements are being put in place, which shall be applicable to all NBFCs-ND-SI, as also all NBFCs-D, with effect from March 31, 2015.

NBFCs shall ensure that there is a policy put in place for ascertaining the fit and proper criteria at the time of appointment of directors and on a continuing basis. The policy on the fit and proper criteria should be on the lines of the Guidelines contained in Annex 1 of the Revised Regulatory Framework (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=9327&Mode=0).

A declaration and undertaking shall be obtained from the Directors by the NBFC, the draft of which is given in Annex 2 of the Revised Regulatory Framework (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=9327&Mode=0).

In addition, the Directors shall sign a Deed of Covenant as given in Annex 3 of the Revised Regulatory Framework (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=9327&Mode=0).

NBFCs shall furnish to the Reserve Bank a quarterly statement on change of Directors certified by the auditors (for the quarter ended March 31 only) and a certificate from the Managing Director that fit and proper criteria in selection of directors have been followed. The statement must reach the Regional Office concerned of the Reserve Bank within 15 days of the close of the quarter.

Constitution of Nomination Committee

The importance of appointment of directors with 'fit and proper' credentials is well recognised in the financial sector. In terms of Section 45-IA(4)(c) of the RBI Act, 1934, while considering the application for grant of Certificate of Registration to undertake the business of non-banking financial institution it is necessary to ensure that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the interest of its present and future depositors. In view of the interest evinced by various entities in this segment, it would be desirable that NBFC-D and NBFC-ND-SI shall form a Nomination Committee to ensure 'fit and proper' status of proposed/existing Directors.

Constitution of Risk Management Committee

The market risk for NBFC-ND-SI and NBFC with public deposit as on the date of last audited balance sheet is addressed by the Asset Liability Management Committee (ALCO) constituted to monitor the asset liability gap and strategize action to mitigate the risk associated. To manage the integrated risk, a risk management committee may be formed, in addition to the ALCO in case of the above category of NBFCs.

Asset Liability Management (ALM)

As part of ALM, NBFCs have to form Board appointed committee (ALCO) to monitor periodically the asset liability position. The responsibility of the committee is to maintain proper balancing of mismatch which is bound to arise between sources and deployment of funds by NBFC in its business operations. The auditor is advised to study the findings of the committee in the management of asset liability position of the company which may provide useful information to them in arriving at an opinion on the state of affairs of the company.

Fair Practices Code

RBI has prescribed the broad guidelines on fair practices code that are to be framed and approved by the Board of Directors of all NBFCs. The fair practices code so framed and approved by the Board of Directors needs to be published and disseminated on the website of the company, if any, for the information of the public. The auditor should verify the compliance in this regard in carrying out his audit. The provisions of the guidelines on fair practices code are briefly discussed as under.

Applications for loans and their processing

- Loan application forms should include necessary information which affects the interest of the borrower.
- Loan application form should indicate the documents

required to be submitted with the application form.

- NBFCs should have a system of giving acknowledgement for receipt of all loan applications.

Loan appraisal and terms/conditions

- NBFCs should convey in writing to the borrower by means of sanction letter or otherwise and keep the acceptance of the same.
- A copy of the loan agreement along with a copy each of all enclosures required in the loan agreement should be furnished to all the borrowers.

Disbursement of loans including changes in terms and conditions

- NBFCs should give notice to the borrower of any change in the terms and conditions.
- NBFCs should release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim the NBFCs may have against the borrower.

General

- In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the NBFC, if any, should be conveyed within 21 days from the date of receipt of request.
- In the matter of recovery of loans, the NBFCs should not resort to undue harassment, *viz.,* persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.
- The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard.
- The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal

mechanism at various levels of management.

A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.

Repossession of assets

- In respect of repossession of assets financed by the NBFC, the auditor should verify as to whether the contract /loan agreement does contain provisions regarding:

  (a) notice period before taking possession;

  (b) circumstances under which the notice period can be waived;

  (c) procedure for taking possession of the security;

  (d) provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property;

  (e) procedure for giving repossession to the borrower, and

  (f) procedure for sale / auction of the property.

Rotation of partners of the statutory auditors audit firm

NBFC-ND-SI and NBFC with Public Deposit the need for good corporate governance has been gaining increased emphasis over the years. Globally, companies are adopting best corporate practices to increase the investors confidence as also that of other stakeholders. Scrutiny of the books of account conducted by auditors rotated periodically would add further value in strengthening corporate governance.

In this context, it would be desirable if NBFCs with public deposits / deposits of Rs. 50 crore and above, stipulate rotation of partners of audit firms appointed for auditing the company. The partner/s of the audit firm conducting the audit could be rotated every three years so that same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC after an interval of three years, if the NBFC, so decides. Companies may incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Chapter 8
Miscellaneous

Applicability of Other Laws

8.1 The auditor should consider the applicability of other laws while checking the transactions entered by the NBFC. These laws include the Indian Contracts Act 1872, the Sale of Goods Act 1930, the Indian Stamp Act 1899, the Negotiable Instruments Act 1881, the Motor Vehicles Act 1961, the Limitation Act 1963.

Opening and Closing of Branches

8.2 NBFCs are to comply with the provisions contained in Non-Banking Financial Companies Acceptance of Deposits (Reserve Bank) Directions,1998 regarding opening and closing of branches/ offices by NBFCs which are entitled to accept public deposits. As per the Directions applicable to all NBFCs except Residuary Non-Banking Companies and Miscellaneous Non-Banking Companies, NBFC shall open its branch or appoint agents to collect deposits only on fulfilling following criteria:

- NBFC should have a certificate of registration from RBI.
- If Net Owned Funds (NOF) is upto Rs 50 crore it can open branch within the State where its registered office is situated. For NOF more than Rs 50 crore and with a credit rating AA and above, NBFC is permitted to open branch anywhere in India.
- NBFC shall notify RBI about its proposal to open the branch.

While closing its branch, NBFC should publish such intention in newspaper and should notify RBI 90 days before the proposed closure.

NBFCs are required to submit quarterly return on Branch within 10 days of expiry of the relative quarter in specified format.

Inspection by RBI

8.3 NBFCs are subject to inspection by RBI under section 45N of the Reserve Bank of India Act, 1934. Where any exceptions are noted NBFCs are required to rectify the same and report compliance.

The auditor should examine the report and consider the exceptions noted in such inspection reports.

ICAI Announcement on NBFCs dated September 18, 2007

8.4 Based on communication received from RBI, ICAI has made an announcement to its members on September 18, 2007 listing out certain irregularities in NBFC which are required to be reported by the auditors but one or more of them have not been reported by some auditors. The auditor should be aware of the list of irregularities pointed out by the RBI. The full text of the announcement is given in **Appendix F** to this Guide.

Know Your Customer (KYC) / Anti Money Laundering (AML) Norms

8.5 The RBI introduced norms for KYC and AML to be followed by the company in carrying out business transactions of accepting deposits and lending to customers. NBFCs are required to frame KYC policy with regard to customer identification procedures and acceptance policy. NBFC needs to comply with the filing of Suspicious Transaction Report (STR) to Financials Intelligence Unit – India in case if NBFC does not satisfy true identity of the customer. NBFC also need to submit Cash Transaction Report (CTR). The auditor should verify the policy maintained by the company and also periodical reports furnished by the principal officer of the company to the RBI to ensure that all the requirements are complied with in this regard.

8.6 In respect of AML norms, the company has to classify its customers into high, medium and low risk taking into account their status, occupation etc., with reference to money laundering activities as specified in the RBI guidelines. The company has also to report suspicious transactions such as receipt of huge volume in cash from customers and also all cash transactions above a specified limit say Rs.10 lakh in a month from a customer. Refer the Master Circular issued by RBI which needs rigorous implementation by all NBFC 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards (AML) - 'Prevention of Money Laundering Act, 2002 - Obligations of NBFCs in terms of Rules notified thereunder to the Financial Intelligence Unit, Ministry of Finance within 7 to 15 days as applicable. The auditor should verify the compliance by the company in this regard.

Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications

8.7 As per RBI circular RBI/2015-16/196 DNBR.CC.PD. No.069/03.10.01/ 2015-16 dated October 01, 2015, the National Scheduled Castes Finance & Development Corporation (NSFDC) under the Ministry of Social Justice & Empowerment, Government of India, has proposed to expand its outreach by channelizing funds through select NBFC-MFIs at lower rate of interest. The objective of NSFDC is to work for the economic empowerment of persons belonging to Scheduled Castes living below the Double Poverty Line.

8.8 NBFC-MFIs to act as channelizing agents of NSFDC, maximum variance permitted shall not be applicable to loans extended by NBFC-MFIs against funding by NSFDC as per the said circular. Lending to individuals by NBFC-MFIs out of funds of NSFDC shall only be through direct credit to their accounts with banks. Further, NBFC-MFIs shall exclude borrowing from NSFDC in arriving at the average cost of funds of the company for the purpose of pricing of credit, other than to the beneficiaries targeted by NSFDC. For this, NBFC-MFIs shall maintain proper record of funds received from NSFDC and the lending out of those funds.

8.9 NBFC – MFI will make appropriate disclosures in this regard shall be made in the balance sheet of such NBFC-MFIs. The minimum disclosures should include quantum of funds received from NSFDC, cost of such funds, loans disbursed therefrom, rate of interest on such loans and the number of beneficiaries.

Appendices

Appendix A

Illustrative Audit Checklist

Controls check list

Strategic controls

Have those charged with governance established a formal policy for the entity’s treasury business that sets out:

- The authorized activities and products the investment company can trade
- The procedures for measuring, analyzing, supervising and controlling risks;
- The extent of risk positions permissible, after taking into account the risk they regard as acceptable;
- The appropriate limits and procedures covering excesses over defined limits;
- The procedures, including documentation, that must be complied with before new products or activities are introduced;
- The type and frequency of reports to those charged with governance; and
- The schedule and frequency, with which the policy is reviewed, updated and approved
- Compliance with regulatory requirements

Operational controls

- Is there appropriate segregation of duties between the front office and back office?
- Are the following activities conducted independently of the front office/business unit:
  - Confirmation of trades;

  - Recording and reconciliation of positions and results;
  - Valuation of trades or independent verification of market prices; and
  - Settlement of trades

- Does the NBFC have a code of conduct for its dealers that addresses the following:
  - Prohibiting dealers from trading on their own account;
  - Restricting acceptance of gifts and entertainment activities;
  - Confidentiality of customer information;
  - Identification of approved counterparties; and
  - Procedures for the review of dealers' activities by management?

- Are remuneration policies structured to avoid encouraging excessive risk taking?

- Are new products entered only after appropriate approvals are obtained and adequate procedures and risk control systems are in place?

Limits and trading activity

- Does the entity have a comprehensive set of limits in place to control the market, credit and liquidity risks for the whole institution, business units and individual dealers? Some commonly used limits are notional or volume limits (by currency or counterparty), stop loss limits, gap or maturity limits, settlement limits and value-at-risk limits (for both market and credit risks).

- Are limits allocated to risks in line with the overall limits of the NBFC which may be based on regulatory requirement?
- Do all dealers know their limits and the use thereof? Does every new transaction reduce the available limit immediately?
- Are procedures in place that covers excesses over limits?

Risk measurement and management

- Is there an independent risk management function (sometimes referred to as Middle Office) for measuring, monitoring and controlling risk? Does it report directly to those charged with governance and senior management? Assess if there are any independence related issues.
- Which method is employed to measure the risk arising from trading activities (for example, position limits, sensitivity limits, value at risk limits, etc.)? Is the method employed is in line with treasury risk management policy.
- Are the risk control and management systems adequately equipped to handle the volume, complexity and risk of treasury activities?
- Does the risk measurement system cover all portfolios, all products and all risks?
- Is appropriate documentation in place for all elements of the risk system (methodology, calculations, parameters)?
- Are all trading portfolios revalued and risk exposures calculated regularly, at least daily for active dealing operations? How actively treasury head evaluates daily profit and loss position and associated risks.

- Are risk management models, methodologies and assumptions used to measure risk and to limit exposures regularly assessed, documented and updated continuously to take account of altered parameters, etc?
- Are stress situations analyzed and "worst case" scenarios (which take into account adverse market events such as unusual changes in prices or volatilities, market illiquidity or default of a major counterparty) conducted and tested?
- Does management receive timely and meaningful reports? How management uses reports?
- Are decisions documented / agreed and communicated among decision makers in a timely manner.
- How frequently risk committee, treasury committee meet and whether actions taken/ decisions recorded in the minutes of such meetings.

Confirmations

Does the NBFC have written procedures in use:

- For the independent receipt of all incoming confirmations and their matching to pre-numbered copies of internal trade tickets;
- For independent comparison of signatures on incoming confirmations to specimen signatures;
- For the independent confirmation of all deals for which no inward confirmation has been received; and
- For the independent follow-up of discrepancies on confirmations received?

Settlement of transactions

- Are settlement instructions exchanged in writing with counterparties by the use of inward and outward confirmations?

- Are settlement instructions compared to the contracts?
- Are settlements made only by appropriate authorized employees independent of the initiation and recording of transactions and only on the basis of authorized, written instructions?
- Are all scheduled settlements (receipts and payments) notified daily in writing to the settlement department so that duplicate requests and failures to receive payments can be promptly detected and followed-up?
- Are accounting entries either prepared from or checked to supporting documentation by operational employees, other than those who maintain records of uncompleted contracts or perform cash functions?

Recording

- Are exception reports generated for excesses in limits; sudden increases in trading volume by any one trader, customer or counterparty; transactions at unusual contract rates, etc? Are these monitored promptly and independently of the dealers?
- The daily reconciliation of dealer's positions and profits with the accounting records and the prompt investigation of all differences;
- Regular reports to management in appropriate detail to allow the monitoring of the limits referred to above.
- Does the NBFC have an accounting system that allows it to prepare reports that show its spot, forward, net open and overall positions for the different types of products, for example:
    - By purchase and sale, by currency;
    - By maturity dates, by currency; and
    - By counterparty, by currency?

- Are open positions revalued periodically (for example, daily) to current values based on quoted rates or rates obtained directly from approved independent sources?

Credit function checklist

- Are loan approval limits based on the overall credit policy and lending officer's authority and experience?
- Is appropriate lending committee or board of director approval required for loans exceeding prescribed limits?
- Is there appropriate segregation of duties between the loan approval function and the loan disbursement monitoring, collection and review functions?
- Is the ownership of loan collateral and priority of the security interest verified?
- Does the NBFC ensure that the borrower signs a legally enforceable document as evidence of an obligation to repay the loan?
- Are guarantees examined to ensure that they are legally enforceable?
- Is the documentation supporting the loan application reviewed and approved by an employee independent of the lending officer?
- Is there a control to ensure the appropriate registration of security (for example, recording of liens with governmental authorities)?
- Is there adequate physical protection of notes, collateral and supporting documents?
- Is there a control to ensure that loan disbursements are recorded immediately?
- Is there a control to ensure that to the extent possible, loan proceeds are used by the borrower for the intended purpose?

Monitoring

- Are trial balances prepared and reconciled with control accounts by employees who do not process or record loan transactions?
- Are reports prepared on a timely basis of loans on which principal or interest payments are in arrears?
- Are these reports reviewed by employees independent of the lending function?
- Are there procedures in use to monitor the borrower's compliance with any loan restrictions (for example, covenants) and requirements to supply information to the NBFC?
- Are there procedures in place that require the periodic reassessment of collateral values?
- Are there procedures in place to ensure that the borrower's financial position and results of operations are reviewed on a regular basis?
- Are there procedures in place to ensure that key administrative dates, such as the renewal of security registrations, are accurately recorded and acted upon as they arise?

Collection

- Are the records of principal and interest collections and the updating of loan account balances maintained by employees independent of the credit granting function?
- Is there a control to ensure that loans in arrears are followed up for payment on a timely basis?
- Are there written procedures in place to define the NBFC's policy for recovering outstanding principal and interest through legal proceedings, such as foreclosure or repossession?

- Are there procedures in place to provide for the regular confirmation of loan balances by direct written communication with the borrower by employees independent of the credit granting and loan recording functions, as well as the independent investigation of reported differences?

Periodic review and evaluation

- Are there procedures in place for the independent review of all loans on a regular basis, including:
  - The review of the results of the monitoring procedures referred to above; and
  - The review of current issues affecting borrowers in relevant geographic and industrial sectors?
- Are there appropriate written policies in effect to establish the criteria for:
  - The establishment of loan loss provisions;
  - The cessation of interest accruals (or the establishment of offsetting provisions);
  - The valuation of collateral security for loss provisioning purposes;
  - The reversals of previously established provisions;
  - The resumption of interest accruals; and
  - The writing off of loans?
- Are there procedures in place to ensure that all required provisions are entered into the accounting records on a timely basis?

Appendix B

Illustrative Audit Report/Certificate Templates

1. Certificate on Quarterly[1] Return on Important Financial Parameters

The Board of Directors

[Name and Address of the Company]

Auditor's Certificate

1. This certificate is issued in accordance with the terms of our agreement dated [Date]

2. The accompanying quarterly return (the "Return") of [*Name of the Company*] comprising important financial parameters of non-banking financial companies has been prepared by the Company's Management and certified by [Name of MD/CEO of the Company or his authorized representative) pursuant to the requirements of DNBS (RID) C.C. No. 57/02.05.15/2005-06 dated September 6, 2005 issued by the Reserve Bank of India ("RBI") as amended from time to time and as consolidated in Reserve Bank of India's Master Circular [*][2] (the "RBI Circular") which we have initialled for identification purpose only.

Management's responsibility for the Return

3. The preparation of the Return is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records

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[1] This certificate is applicable for return filed by NBFC-ND SI. Requirement changed from monthly to quarterly vide RBI circular RBI/2014-15/246 DNBS (PD).CC.No.03/03.02.02/2015-16 dated November 26, 2015.

[2] Engagement team to give correct and most recent master circular reference.

supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Return and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the RBI Circular and other applicable circulars and guidelines issued by the RBI as applicable for Non-Banking Financial Companies and for providing all relevant information to RBI.

Auditor's Responsibilities

5. Pursuant to the RBI Circular it is our responsibility to examine the books and other records of the Company as at [Date] and certify whether:

   a. The financial information furnished in the Return is in agreement with books and records of the Company as at [Date].

   b. The Company has not accepted any public deposits during the period/year ended [Date].

   c. Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts prescribed by the Reserve Bank of India for non-banking financial companies as applicable to it.[3]

6. The financial statements prepared from the books and records referred to in paragraph 5 above, have been audited by us on which we issued a modified/ an unmodified audit opinion vide our reports dated [month][date][year]. Our audit of these financial

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[3] As applicable

statements was conducted in accordance with the Standards on Auditing referred to in Section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties. Or

The financial statements prepared from the books and records referred to in paragraph 5 above, are subject to audit pursuant to the requirements of the Companies Act, 2013.

7. We conducted our examination, on test check basis[4], in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Conclusion

8. Based on our examination as above and the information and explanations given to us, we certify that, to the best of our knowledge and according to the information and explanations given to us and as shown by the records examined by us:

   (a) the financial information in the accompanying Return are in agreement with the audited/ unaudited books and records as at [Date]

   (b) The Board of Directors of the Company have passed a resolution in its meeting held on *[month, day, year]* for non-acceptance of any public deposits.[5]

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[4] As applicable
[5] As applicable

(c) The company has not accepted any public deposits during the year ended March 31, *[year]*.[6]

(d) The Company has complied with prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts prescribed by the Reserve Bank of India for non-banking financial companies as applicable to it.[7]

Restrictions on Use

9. Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the RBI Circular. Our obligations in respect of this certificate are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this certificate nor anything said or done in the course of or in connection with the services that are the subject of this certificate, will extend any duty of care we may have in our capacity as auditors of the Company.

10. This certificate has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission of the Return to the Reserve Bank of India pursuant to RBI Circular and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our certificate is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]

Firm Registration Number: [Insert Firm's Registration number]

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[6] As applicable

[7] As Applicable

Chartered Accountants

Signature
[Insert Partner’s Name]
Partner
Membership Number:

[Place of the Signature]
[Date]

2. Certificate on Net Owned Funds

The Board of Directors

[*Name of the Company*]

[*Address*]

Auditor's Certificate

1) This certificate is issued in accordance with the terms of our agreement dated [date].

2) The accompanying Statement of Computation of Net Owned Funds[8] ("the Statement") as on [month] [date], [year] of [Name of the Company] (the "Company") has been prepared by Company's Management and certified by the [Managing Director/ Chief Executive Officer of the Company or his authorised representative] pursuant to the requirements as specified in circular DNBS (PD) C.C. No. 114 /03. 02.059/2007-08 dated June 17, 2008, as amended and consolidated in RBI Master circular [*][9] ("the Circular") issued by the Reserve Bank of India ("RBI") and which we have initialled for identification purposes only.

Management's Responsibility for the Statement

3) The preparation of the Statement is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

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[8] The Statement should contain reference to appropriate RBI direction defining the term 'Net owned funds'.
[9] Engagement team to give correct and most recent master circular reference.

4) The Management is also responsible for ensuring that the Company complies with the requirements of the Circular and other relevant circulars and Guidelines issued by RBI as applicable to Non Banking Financial Companies and for providing all relevant information to RBI.

Auditor's Responsibility

5) Pursuant to the Circular it is our responsibility to examine the Statement with the audited / unaudited books and other records of the Company for the year ended [Date] and certify that the financial information included in the computation of net owned funds as shown in the accompanying Statement is in agreement with the audited/ unaudited books and records of the Company for the year ended [Date] and the computation therein is arithmetically accurate.

6) The financial statements prepared from the books and records referred to in paragraph 5 above, have been audited by us on which we issued a modified/an unmodified audit opinion vide our reports dated [month][date][year]. Our audit of these financial statements was conducted in accordance with the Standards on Auditing referred to in Section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties OR

   The financial statements prepared from the books and records referred to in paragraph 5 above are subject to audit pursuant to the requirements of the Companies Act, 2013.

7) We conducted our examination, on test check basis[10], in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Conclusion

8) Based on our examination as above, and the information and explanations given to us, we certify that :

   a) the financial information included in computation of net owned funds in the Statement is in agreement with the audited/ unaudited books and records of the Company for the year ended [Date] and

   b) the computation therein is arithmetically correct.

Restrictions on Use

9) Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Circular. Our obligations in respect of this certificate are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this certificate nor anything said or done in the course of or in connection with the services that are the subject of this certificate, will extend any duty of care we may have in our capacity as auditors of the Company.

10) This certificate has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission to the Reserve Bank of India under Section 45 IA of the RBI Act,1934 and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other

[10] As applicable

party to whom our certificate is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]

Firm Registration Number: [Insert Firm's Registration number]

Chartered Accountants

Signature

[Insert Partner's Name]

Partner

Membership Number:

[Place of the Signature]

[Date]

3. Auditor's Report on NBS 7 Return

The Board of Directors
[Name and Address of the Company]

Auditor's Report

1) This report is issued in accordance with the terms of our agreement dated [date].

2) The accompanying Statement of the capital funds, risk assets/ exposures and risk asset ratio etc. (the "Statement") as on [month] [date], [year] of [name of the Company] (the "Company") has been prepared by Company's Management and certified by the [Managing Director/ Chief Executive Officer of the Company or his authorised representative], pursuant to the requirements of circular reference number DNBS.PD/ CC.No. 93 / 03.05.002 /2006-07 dated April 27, 2007 issued by the Reserve Bank of India ("RBI") as consolidated in RBI Master Circular [*][11] (the "Circular"), which we have initialled for identification purposes only.

Management's Responsibility for the Statement

3) The preparation of the Statement is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4) The Management is also responsible for ensuring that the Company complies with the requirements of the

[11] Insert reference of the most recent master circular.

Circular and other applicable circulars and guidelines issued by RBI as applicable to Non-Banking Financial Companies and for providing all relevant information to RBI.

Auditor's Responsibility

5) Pursuant to the requirements of the Circular it is our responsibility to obtain reasonable assurance and report that the financial information in Parts 1 to 11 of the Statement are in accordance with the audited/ unaudited books of account and other records of the Company as at [Date] and the computation therein are arithmetically accurate.

6) The financial statements prepared from the books and records referred to in paragraph 5 above, have been audited by us on which we issued a modified/ an unmodified audit opinion vide our reports dated [month][date][year]. Our audit of these financial statements was conducted in accordance with the Standards on Auditing referred to in Section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties. OR

   The financial statements prepared from the books and records referred to in paragraph 5 above are subject to audit pursuant to the requirements of Companies Act, 2013.

7) We conducted our examination in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Opinion

8) Based on our examination as above, and the information and explanations given to us, we report that, the financial information in Parts 1 to 11 of the Statement are in accordance with the audited / unaudited books of account and other records of the Company as at [Date] and the computation therein are arithmetically accurate.

Restrictions on Use

9) Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Circular. Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this report nor anything said or done in the course of or in connection with the services that are the subject of this report, will extend any duty of care we may have in our capacity as auditors of the Company.

10) This report has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission to the Reserve Bank of India pursuant to the requirements of the Circular, and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our report is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]

Firm Registration Number: [Insert Firm's Registration number]

Chartered Accountants

Signature

[Insert Partner's Name]

Partner

Membership Number:

[Place of the Signature]

[Date]

4. Report with NBS 1

The Board of Directors
[Name and address of the Company]

Auditor's Report

1) This report is issued in accordance with the terms of our engagement dated [*]

2) The accompanying declaration in Form- NBS 1 Return on Deposits (the "Return") of [Name of the Company] (the "Company") comprising matters set out in Parts 1 to 11 of the Return as at and for the quarter ended [month] [date], [year] has been prepared by the Company's Management pursuant to the requirements contained in Notification No.DFC.118/DG(SPT)-98 dated January 31, 1998 as consolidated in the Master circular issued by the Reserve Bank of India("RBI") [*][12] (the "Notification"). We have initialled the Return for identification purposes only.

Management's responsibility for the Return

3) The preparation of the Return is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Return and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances

4) The Management is also responsible for ensuring that the Company complies with the requirements of the Notification and other relevant circulars and guidelines issued by RBI as applicable to Non Banking Financial Companies and for providing all relevant information to RBI.

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[12] Engagement team to give correct and most recent master circular reference

Auditor's Responsibility

5) Pursuant to the Notification, it is our responsibility to report on the matters furnished in the Parts 1 to 11 of the Return based on our examination of the matters in the Return with reference to the audited financial statements as at and for the year ended [date] and the related books of account and other records maintained by the Company.

6) The financial statements prepared from the books and records referred to in paragraph 5 above, have been audited by us on which we issued a modified/an unmodified audit opinion vide our reports dated [date]. Our audit of these financial statements was conducted in accordance with the Standards on Auditing referred to in Section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

7) We conducted our examination of the Return in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Opinion

8) Based on our examination as above and the information and explanations given to us, to the best of our knowledge and according to the information and explanations given to us and as shown by the records examined by us, in our opinion, the matters disclosed in Parts 1 to 11 of the Return are in agreement with audited financial statements of the Company as at and for the

year ended [month][date], [year] and the related books of account and other records of the Company.

Restrictions on Use

9) Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Notification. Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this report nor anything said or done in the course of or in connection with the services that are the subject of this report, will extend any duty of care we may have in our capacity as auditors of the Company

10) This report is addressed to and provided to the Company solely for the purpose of enabling it to comply with its obligations under the Notification to submit the Return along with this report, and should not be used by any other person or for any other purpose. Accordingly, (Name of the Firm) do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]
Firm Registration Number: [Insert Firm's Registration number]
Chartered Accountants

Signature
[Insert Partner’s Name]
Partner
Membership Number:

[Place of the Signature]

[Date]

5. Certificate on Asset and Income Pattern

The Board of Directors
[Name and address of the Company]

Auditor's Certificate

1) This certificate is issued in accordance with the terms of our agreement dated [ ].

2) The accompanying Statement of assets and income pattern ("the Statement") as on [Date] of [Name of the Company] (the "Company") has been prepared by Company's Management and certified by the [Director/ authorised representative] pursuant to the requirements as specified in "Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015" as amended from time to time and consolidated in Master Circular no. [Give full reference of RBI Master circular][13] (hereinafter referred to as the "Circular") issued by the Reserve Bank of India ("RBI") and which we have initialled for identification purposes only.

Management's Responsibility for the Statement

3) The preparation of the Statement is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4) The Management is also responsible for ensuring that the Company complies with the requirements of the Circular and other relevant circulars and Guidelines

[13] Insert reference of the most recent master circular

issued by RBI as applicable to Non Banking Financial Companies and for providing all relevant information to RBI.

Auditor's Responsibility

5) Pursuant to the Circular it is our responsibility to examine the Statement with the books and other records of the Company and certify that :

    a) the particulars set out in the Statement are in accordance with the books and records of the Company underlying the audited financial statements for the year ended [Date] and

    b) the Company continues to undertake the business of a Non-Banking Financial Institution ("NBFI") requiring it to hold Certificate of Registration under Section 45 IA of Reserve Bank of India Act, 1934 for the financial year ended [Date].

6) The financial statements referred in paragraph 5 above, have been audited by us on which we issued a modified/an unmodified audit opinion[14] vide our report dated [Date]. Our audit of these financial statements was conducted in accordance with the Standards on Auditing referred to in section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

[14] Engagement team to fill up the unfilled factual particulars and strike off options which are not applicable in the entire certificate.

7) We conducted our examination, on test check basis[15], in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Conclusion

8) Based on our examination as above, and the information and explanations given to us, we certify that :

   a) the particulars set out in the Statement are in accordance with the audited books and records of the Company for the year ended [Date] and;

   b) the Company continues to undertake the business of a NBFI requiring it to hold Certificate of Registration under Section 45 IA of Reserve Bank of India Act, 1934 for the financial year ended [Date]

Restrictions on Use

9) Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Circular. Our obligations in respect of this certificate are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this certificate nor anything said or done in the course of or in connection with the services that are the subject of this certificate, will extend any duty of care we may have in our capacity as auditors of the Company.

10) This certificate has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission to the Reserve Bank of India pursuant to Circular and should not be used by any other person or for any other purpose. (Name of the Firm) neither accepts nor assumes any duty or liability for any

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[15] As applicable

other purpose or to any other party to whom our certificate is shown or into whose hands it may come without our prior consent in writing.

For
Name of the Firm
Firm Registration Number:
Chartered Accountants

Signature
Partner
Membership Number

Place of signature
Date

6. Auditor's Certificate on Foreign Direct Investment

The Board of Directors
[Name of the Company]
[Address]

Auditor's Certificate

1) This certificate is issued in accordance with the terms of our agreement dated [date].

2) The accompanying statement of foreign direct investment in [Name of the Company] (hereinafter referred to as "the Company") as at [date] (the "Statement") has been prepared by the Company's Management and certified by the [Managing Director/ Chief Executive Officer of the Company or his authorised representative] , pursuant to the requirements of FEMA Notification 94/2003-RB dated June 18, 2003 issued by the Reserve Bank of India ("RBI"), as consolidated in RBI Master circular [*][16] ("RBI Circular"), which have been initialled by us for identification purpose only.

Management's Responsibility for the Statement

3) The preparation of the Statement is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement.

4) The Management is also responsible for ensuring that the Company complies with the requirements of the RBI Circular and other applicable circulars and guidelines issued by RBI as applicable to Non Banking Financial Companies and for providing all relevant information to RBI

[16] Engagement team to give correct and most recent master circular reference.

Auditor's Responsibility

5) Pursuant to the requirement of the circular DNBS (PD).CC. No 167 /03.10.01 /2009-10 dated February 04, 2010 issued by RBI, as consolidated in RBI Master circular [*][17] ("RBI Notification"), it is our responsibility to examine the books and other records of the Company as at [Date] and certify whether:

   a) the Company has complied with the minimum capitalization requirement norms, as prescribed under RBI Circular on an ongoing basis during the period [month, date, year] to [month, date, year]

   b) the Company has undertaken activities in the nature of [specify] during the period [month, date, year] to [month, date, year], and the aforesaid activities of the Company were confined to the eighteen permissible activities as stipulated in the RBI Circular.

   c) the accompanying Statement is in agreement with the books of account, register of members and other records maintained by the Company as at [Date] and produced to us for our examination.

6) The financial statements prepared from the books and records referred to in paragraph 5 above, have been audited (not always audited as this is issued on half yearly basis) by us on which we issued a modified/ an unmodified audit opinion vide our reports dated [date]. Our audit of these financial statements was conducted in accordance with the Standards on Auditing referred to in section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

[17] Engagement team to give correct and most recent master circular reference.

statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties Or

The financial statements prepared from the books and records referred to in paragraph 5 above are subject to audit pursuant to the requirements of the Companies Act, 2013.

7) We conducted our examination, on test check basis[18], in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Conclusion

8) Based on our examination as above, and the information and explanations given to us, we certify that, to the best of our knowledge:

   a) The Company has complied with the minimum capitalization requirement norms, as prescribed under RBI Circular on an ongoing basis during the period [month, date, year] to [month, date, year].

   b) The Company has undertaken activities in the nature of [specify] during the period [month, date, year] to [month, date, year], and the aforesaid activities of the Company were confined to the eighteen permissible activities as stipulated in the RBI Circular.

   c) The accompanying Statement is in agreement with the audited/unaudited books of account, register of members and other records as at [Date] maintained by the Company and produced to us for our examination.

[18] Delete if not applicable

Restrictions on Use

9) Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with RBI Circular. Our obligations in respect of this certificate are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this certificate nor anything said or done in the course of or in connection with the services that are the subject of this certificate, will extend any duty of care we may have in our capacity as auditors of the Company.

10) This certificate has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission to the Reserve Bank of India pursuant to the requirements of RBI Notification, and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our certificate is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]
Firm Registration Number: [Insert Firm's Registration number]
Chartered Accountants

Signature
[Insert Partner's Name]
Partner
Membership Number:

[Place of the Signature]
[Date]

7. Auditor's Report

The Board of Directors
[Name and Address of the Company]

Auditor's Report

1. This report is issued in accordance with the terms of our agreement dated [Date]

2. The accompanying statement of compliance with Master Circular- Regulatory Framework for Core Investment Companies (CICs) Ref [RBI /2015-16/25 DNBS (PD) CC No.048/ 03.10.119/ 2015-16 dated July 1, 2015[19]] (the 'Master Circular') issued by Reserve Bank of India(RBI) and Annexure 1 attached thereto along with the relevant supporting working notes of computation (together referred to as the 'Statements') has been prepared by xx Limited (the 'Company') for the year ended [Date]. The Statements contain information about the Company's compliance with respect to composition and contribution of its investments to the net assets, computation of the capital requirements and the leverage ratio in accordance with the rules and methods prescribed under Paragraph 8 – Extent of Directions ('Paragraph 8'), Paragraph 11 – Capital Requirements ('Paragraph 11') and Paragraph 12- Leverage Ratio ('Paragraph 12') respectively of the Master Circular to enable the Company to comply with the annual certification requirement from Non Deposit taking Systemically Important Core Investment Company ('CIC-ND-SI') as stipulated by RBI under paragraph 14 of the Master Circular. We have initialled the Statements for identification purposes only.

Management's responsibility for the Statements

3. The preparation of the Statements is the responsibility of the Management of the Company including the creation

[19] Engagement team should insert reference of the most recent master circular

and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statements and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the Master circular and other applicable circulars and guidelines issued by the RBI as applicable for an CIC-ND-SI and for providing all relevant information to RBI.

Auditor's Responsibilities

5. Pursuant to the RBI Circular it is our responsibility to examine the Statements with the audited financial statements of the Company for the year ended [Date] and the underlying books and other records of the Company as on that date and report that:

   (a) the information contained in the Statements with respect to the composition of investments, the Capital Requirements and with regard to computation of Leverage Ratio have been accurately extracted from the audited financial statements for the year ended [Date] and/ or is matching with underlying audited books and records maintained by the Company;

   (b) The composition of investments and computation of its contribution to the net assets, the Capital Requirements and the Leverage Ratio computation as set out in the Statements are in accordance with Paragraph 8, Paragraph 11 and Paragraph 12 of the Master Circular; and

   (c) the computations in the Statements in respect of [ ] are arithmetically correct.

6. The financial statements referred to in paragraph 5 above, have been audited by us on which we issued an

unmodified/modified audit opinion vide our reports dated [date]. Our audits of these financial statements were conducted in accordance with the Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

7. We conducted our examination in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Opinion

8. Based on our examination as above and the information and explanations given to us, we report that, to the best of our knowledge and according to the information and explanations given to us and as shown by the records examined by us:

   (a) the information contained in the Statements with respect to the composition of investments, the Capital Requirements and with regard to computation of Leverage Ratio have been accurately extracted from the audited financial statements for the year ended [Date] and/ or is matching with underlying audited books and records maintained by the Company;

   (b) The composition of investments and computation of its contribution to the net assets, the Capital Requirements and the Leverage Ratio computation as set out in the Statements are in accordance with Paragraph 8, Paragraph 11 and Paragraph 12 of the Master Circular; and

(c) the computations in the Statements in respect of [ ] are arithmetically correct.

Restrictions on Use

9. Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Master Circular. Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this report nor anything said or done in the course of or in connection with the services that are the subject of this report, will extend any duty of care we may have in our capacity as auditors of the Company.

10. This report has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission of the Report to the Reserve Bank of India pursuant to Master circular and this report should not be used by any other person or for any other purpose. (Name of the Firm) neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our report is shown or into whose hands it may come without our prior consent in writing.

For [Name of the Firm]
Firm Registration Number:
Chartered Accountants

Signature
Partner
Membership Number:

[Place of the Signature]
[Date]

8. Auditor's Report on Statement of change in directors for the quarter ended [Date]

The Board of Directors,
[Name of the Company]
[Address of the Company]

Auditor's Report

1. This report is issued in accordance with the terms of our agreement dated [Date].

2. The accompanying Statement showing details of change of directors during the quarter ended [date]' (hereinafter referred to as the "Statement of Change of Director or Statement") has been prepared by [Name of the Company] ("the Company"), in compliance with the requirement of Clause 9.(iv)of the Revised Regulatory Frameworks for NBFCs issued by the Reserve Bank of India(RBI) vide notification no. RBI/2014-15/299 DNBR (PD) CC.No.002/03.10.001/2014-15 dated November 10, 2014(hereinafter referred to as the "Notification").

Management's Responsibility for the Statement

3. The Company's Management is responsible for preparation of the Statement including the creation and maintenance of all books and records supporting its contents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying an appropriate basis of preparation.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the Circular and for providing all the relevant information to the RBI.

Auditor's Responsibility

5. Pursuant to the requirements of the Notification, it is our responsibility to report whether the details set out in the Statement are in accordance with the audited/unaudited books and records of the Company as at [date].

6. We conducted our examination of the Statement in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Opinion

7. Based on our examination, as above, we report that the details set out in the Statement are in agreement with the audited/ unaudited books and records of the Company as at [date].

Restrictions on Use

8. Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Notification. Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services that are the subject of this report, will extend any duty of care we may have in our capacity as auditors of the Company.

9. The report is addressed to and provided to the Board of Directors of the Company solely for the purpose to enable it to comply with requirement of the Notification and to submit the accompanying Statement to RBI and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into

whose hands it may come without our prior consent in writing.

For [Name of the Firm]
[Firm Registration Number]
Chartered Accountants

Signature
[Name of the Partner]
Partner
[Membership Number]

Place:
Date:

9. Auditor's Certificate

The Board of Directors
[Name and Address of the Company]

Auditor's Certificate

1. This certificate is issued in accordance with the terms of our agreement dated [Date]
2. The accompanying statement of [*Name of the Company*] (the "Company") comprising financial parameters and particulars of non-banking financial companies as at [Date] [the "Statement"] along with annexures supporting contents of the Statement has been prepared by the Company's Management and certified by [Name of MD/CEO of the Company or his authorized representative) pursuant to the requirements of Reserve Bank of India (RBI) Notification no. RBI/2015-16/433/DNBS (PPD) CC.No./04/66.14.001 / 2015-16 dated June 23, 2016 (Notification). We have initialled the Statement and accompanying annexures for identification purposes only.
3. We have audited the financial statements of the Company for the year ended [Date] on which we issued unmodified/modified opinion vide our report dated [Date]. Further we have issued additional report addressed to the Board of Directors of the Company in compliance with the requirements of paragraph 2 of Notification No. DNBS.201/DG(VL)-2008 dated September 18, 2008(RBI Notification) and had not come across any exceptions that is required to be reported under paragraph 5 of the aforesaid RBI Notification.

Management's responsibility for the Statement

4. The preparation of the Statement is the responsibility of the Management of the Company including the creation and maintenance of all accounting and other records supporting its contents. This responsibility includes the design, implementation and maintenance of internal

control relevant to the preparation and presentation of the Statement and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

5. The Management is also responsible for ensuring that the Company complies with the requirements of the Notification and other applicable circulars and guidelines issued by the RBI as applicable for Non-Banking Financial Companies and for providing all relevant information to RBI.

Auditor's Responsibilities

6. Pursuant to the Notification it is our responsibility to certify whether :

   i) the particulars set out at serial numbers 1, 2,3,4, 5, 9 in the Statement are in agreement with the audited books and records of the Company as on [Date] as produced for our examination.

   ii) the particulars set out at serial number 7 and 10 in the Statement are in agreement with the audited financial statements of the Company for the year ended [Date].

   iii) the financial information included in Annexures [*], [*] and [*] with respect to computation of net owned funds(NOF), Asset-Income Pattern (AIP) and [percentage of advances to total assets and percentage of income to total income][20] stated at

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[20] This is to be included in case of AFC stated at serial number 14

- In case the company is a NBFC Factor company (as stated in serial no.12)- Include "Percentage of factoring assets to total assets and percentage of factoring income to gross income"
- In case it is NBFC-MFI (as stated in serial number 13 of the Statement)– include "Percentage of Qualifying Assets to Net Assets"
- In case the company is an NBFC–IFC (serial number 15) – Include "percentage of infrastructure loans to Total Assets.
- Nothing should be included if the NBFC does not fall into any category stated at serial no.12 to 15.

serial numbers 6, 8 and (12 or 13 or 14 or 15) respectively in the Statement has been accurately extracted from the audited financial statements and the underlying books and records maintained by the Company for the year ended [Date], the calculations given therein are mathematically accurate. The method of calculation of NOF is as prescribed in the notification and of AIP and [percentage of advances and percentage of income for Asset Finance Company][21] is as defined by the management and specified in the respective annexure.

iv) the particulars set out in Annexure [*] relating to Foreign Direct Investment received by the Company stated at serial number 11 in the Statement are in agreement with the audited books and records of the Company for the year ended [Date].

v) as set out at serial number 16 in the Statement, there is any takeover/acquisition of control or change in shareholding or management of the Company requiring prior approval from RBI based on our examination of the audited books and records of the Company.

vi) the particulars set out in serial numbers 12,13,14 and 15 in the Statement are in agreement with the audited books and records of the Company for the year ended [Date].

7. Our audit of financial statements referred to in paragraph 3 above was conducted in accordance with the Standards on Auditing referred to in Section 143(10) of the Companies Act, 2013 and other applicable authoritative pronouncements issued by the Institute of

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[21] In case the NBFC is MFI replace this with "Percentage of Qualifying Assets to Net Assets"; In case the company is a NBFC Factor company (as stated in serial no.12) - Include "Percentage of factoring assets to total assets and percentage of factoring income to gross income"; In case the company is an NBFC –IFC (serial number 15) – Include "percentage of infrastructure loans to Total Assets.

Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit was not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

8. For the purpose of our responsibility referred to in paragraph 6 above, we conducted our examination, on test check basis[22], in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Conclusion

9. Based on our examination as above and the information and explanations given to us, to the best of our knowledge and according to the information and explanations given to us, we certify that:

   i) the particulars set out at serial numbers 1,2,3,4,5 and 9 are in agreement with the audited books and records of the Company as on [Date] as produced for our examination.

   ii) the particulars set out at serial number 7 and 10 are in agreement with the audited financial statements of the Company for the year ended [Date].

   iii) the financial information included in Annexures [*], [*] and [*] with respect to computation of net owned funds, Asset-Income Pattern and classification of the Company as an [Factor/MFI/Asset Finance/Infrastructure Finance Company] stated at serial numbers 6, 8 and [12 or 13 or 14 or 15] respectively in the Statement has been accurately

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[22] Include as applicable

extracted from the audited financial statements and the underlying books and records maintained by the Company for the year ended [Date], the calculations given therein are mathematically accurate and is in compliance with the requirements of [Mention RBI circular references] respectively.

iv) As set out in Annexure [*] with regard to serial number 11 of the Statement, the Company on an ongoing basis has complied with the minimum capitalization norms in terms of FEMA Notification 94/2003-RB dated June 18, 2003 as consolidated in RBI Master Circular no.15/2015-16 dated July 1, 2015 issued by RBI

v) As set out at serial number 16 in the Statement, based on our examination of books and records for the year ended [Date], there has not been any change in any takeover/acquisition of control or change in shareholding or management of the Company requiring prior approval from RBI.

vi) As the Company is an [Factor/MFI/Asset Finance/Infrastructure Finance Company], the question of us commenting on the particulars set out at serial numbers [12, 13, 14 and 15] does not arise.

Restrictions on Use

10. Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Notification. Our obligations in respect of this certificate are entirely separate from, and our responsibility and liability is in no way changed by any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing in this certificate nor anything said or done in the course of or in connection with the services that are the subject of this certificate, will extend any duty of care we may have in our capacity as auditors of the Company.

11. This certificate has been issued for the sole use of the Board of Directors of the Company, to whom it is addressed, for submission of the Certificate to [ ] pursuant to Notification and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our certificate is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]

Firm Registration Number: [Insert Firm's Registration number]

Chartered Accountants

Signature

[Insert Partner's Name]

Partner

Membership Number:

[Place of the Signature]

[Date]

Prescribed Form in RBI notification on which above mentioned Annual certificate is issued.

Sr. No	Particulars	Details
1	Name of the company	
2	Certificate of Registration(CoR) No.	
3	Registered office Address	
4	Corporate office Address	
5	The company has been classified by RBI as : (Investment Company / Loan Company / AFC / NBFC-MFI / NBFC- Factor / IFC / IDF- NBFC)	

Sr. No	Particulars	Details
6	Net Owned Fund (in INR Crore)	
7	Total Assets (in INR Crore)	
8	Asset-Income pattern: (in terms of RBI Press Release 1998-99/1269 dated April 8, 1999) a) % of Financial Assets to Total Assets b) % of Financial Income to Gross Income (NBFC-Factor / NBFC-MFI / AFC / IFC may also report separately below)	
9	Whether the company was holding any Public Deposits, as on March 31, 2016	(Yes/No)
10	Has the company transferred a sum not less than 20% of its Net Profit for the year to Reserve Fund? (in terms of Sec 45-IC of the RBI Act, 1934).	(Yes/No/NA)
11	Has the company received any FDI? If Yes, did the company comply with the minimum capitalization norms for the FDI?	(Yes/No)
12	If the company is classified as an NBFC-Factor; a) % of Factoring Assets to Total Assets b) % of Factoring Income to Gross Income	
13	If the company is classified as an NBFC-MFI; % of Qualifying Assets to Net Assets (refer to Notification DNBS.PD.No.234 CGM (US) 2011 dated December 02, 2011)	
14	If the company is classified as an AFC; a) % of Advances given for creation of physical / real assets supporting economic activity to Total Assets	

Sr. No	Particulars	Details
	b) % of income generated out of these assets to Total Income	
15	If the company is classified as an NBFC-IFC % of Infrastructure Loans to Total Assets	
16	Has there been any takeover/acquisition of control/ change in shareholding/ Management during the year which required prior approval from RBI? (please refer to per DNBR (PD) CC. No. 065/03.10.001/2015-16 dated July 09, 2015 on the subject for details)	(Yes/No) If yes, please specify.

Appendix C

Illustrative Format of Additional Report and Exception Reporting

Auditor's Additional Report

The Board of the Directors
[Name of the Company]
[Address]

1. This report is issued in accordance with the requirements of Non-Banking Financial Companies Auditors Report (Reserve Bank) Directions, 2008 (the "Directions") as consolidated in the Reserve Bank of India (RBI) Master Circular [Mention circular reference] Dated [ ].

2. We have audited the accompanying financial statements of [Name of the Company](hereinafter referred to as the "Company") comprising Balance Sheet as at March 31,[year] and the related Statement of Profit and Loss and Cash Flow Statement for the year ended on that date, on which we have issued our report dated [ ].

Management's Responsibility for the Financial Statements

3. The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements to give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for

preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls,[that were operating effectively for ensuring the accuracy and completeness of the accounting records][23], relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

4. The Management is also responsible for compliance with the Reserve Bank of India (hereinafter RBI or Bank) Act, 1934 and other relevant RBI circulars and guidelines applicable to Non-Banking Financial Companies, as amended from time to time, and for providing all the required information to RBI.

Auditor's Responsibility

5. Pursuant to the requirements of Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 as consolidated in RBI Master circular [*][24](the "Directions"), it is our responsibility to examine the audited books and records of the Company for the year ended [Date] and report on the matters specified in the Directions to the extent applicable to the Company.

6. We conducted our examination in accordance with the 'Guidance Note on Audit reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India

Opinion

7. Based on our examination of the audited books and records of the Company for the year ended [Date] as

[23] to be included in case of a listed entity

[24] Engagement team to give correct and most recent master circular reference.

produced for our examination and the information and explanations given to us we report that:

7.1 The Company is engaged in the business of non-banking financial institution and has obtained a certificate of registration (CoR) *[Certificate Reference]* dated *[month, day, year]* from the Bank's Department of Non-Banking Supervision, [*Location*] Regional Office.

7.2 The Company is entitled to continue to hold such CoR in terms of its asset/(income pattern)[25] as on March 31, *[year]*.

7.3 Based on the criteria set forth by the Bank in Circular No. DNBS.PD. CC No. 85 / 03.02.089 /2006-07 dated December 6, 2006 as consolidated in Master circular [*][26] for classification of NBFCs as Asset Finance Company (AFC), the non-banking financial company has been correctly classified as AFC as defined in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 (as amended up to the date of this report) with reference to the business carried on by it during the year ended *[month, day, year]* .[27]

7.4 Based on the criteria set forth by the Bank in the Notification *viz;* Non-Banking Financial Company-Micro Finance Institutions (Reserve Bank) Directions, 2011 dated December 02, 2011 as consolidated in Master circular [*][28] (MFI Directions) for classification of NBFCs as NBFC-MFIs, the non-banking financial company has been correctly classified as NBFC-MFI as defined in the aforesaid

[25] To be deleted for a CIC
[26] Engagement team to give correct and most recent master circular reference.
[27] Delete this paragraph if not found applicable
[28] Engagement team to give correct and most recent master circular reference.

MFI Directions with reference to the business carried on by it during the year ended *[month, day, year]*.[29]

7.5 The Board of Directors of the Company has passed a resolution in its meeting held on/ through circulation on *[month, day, year]* for non-acceptance of public deposits.

7.6 The Company has not accepted any public deposits during the year ended *[month, day, year]*.

7.7 The Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non–Banking Financial (Non–Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (as amended up to the date of this report).

7.8 [The statement of capital funds, risk assets / exposures and risk asset ratio (NBS – 7) has been furnished to the Bank on *[month, day, year]* within the stipulated period based on the audited/unaudited books of account. The Company had correctly arrived at and disclosed the capital adequacy ratio (CRAR), based on the audited/unaudited books of account, in the return submitted to the Bank in Form NBS – 7 and such ratio is in compliance with the minimum CRAR prescribed by the Bank.][30]

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[29] Delete this paragraph if not found applicable

[30] This is to be included only in case of systemically Important Non Deposit taking NBFCs. Also this is not applicable in case the company is a CIC. In case of company being a CIC, replace this paragraph with "Para 16-"Requirement as to capital adequacy" of Prudential Norms Directions is not applicable to the Company. Accordingly the question of commenting on whether the Company had correctly arrived at and disclosed the capital adequacy ratio (CRAR), based on the audited/unaudited books of account, in the return submitted to the Bank in Form NBS – 7 and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank does not arise."

Restriction on Use

8. Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Company or otherwise. Nothing said in this report, nor anything said or done in the course of or in connection with the services that are the subject of this report, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Company.

9. This report is issued pursuant to our obligations under Directions to submit a report on additional matters as stated in the above Directions, to the Board of Directors of the Company and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our report is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]

Firm Registration Number: [Insert Firm's Registration number]

Chartered Accountants

Signature

[Insert Partner's Name]

Partner

Membership Number:

Exception Reporting

To be addressed to Regional Office of the Department of Non-banking supervision of RBI

1. This report is issued in accordance with the requirements of Non-Banking Financial Companies Auditors Report (Reserve Bank) Directions, 2008 (the "Directions") as consolidated in the Reserve Bank of India (RBI) Master Circular [Mention Master circular reference] Dated [Date].

2. We have audited the accompanying financial statements of [Name of the Company] (hereinafter referred to as the "Company") comprising of Balance Sheet as at March 31, [ ] and the related Statement of Profit and Loss and Cash Flow Statement for the year ended on that date on which we have issued our modified /unmodified report dated [ ].

Management's Responsibility for the Financial Statements

3. The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements to give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation

and maintenance of adequate internal financial controls,[that were operating effectively for ensuring the accuracy and completeness of the accounting records[31]], relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

4. As required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 (the "Directions") as consolidated in RBI Master circular [*][32] and on the basis of such checks of the books and records of the Company as we considered appropriate and the information and explanations given to us during the course of our audit, we give below a statement on the matters specified in paragraphs 5 of the said Directions to the extent applicable to the Company:

5. We conducted our examination in accordance with the 'Guidance Note on Audit Reports and Certificates for Special Purposes' issued by the Institute of Chartered Accountants of India.

Basis for exception reporting

6. **[Provide brief background of requirement]**

Exception Report

7. We draw your attention to Note [*] of Schedule [*] of the financial statements for the year ended March 31,[ ], regarding [qualification]

Restriction on Use

8. This report is issued pursuant to our obligations under Non-Banking Financial Companies Auditor's Report

[31] to be included in case of a listed entity

[32] Engagement team to give correct and most recent master circular reference.

(Reserve Bank) Directions, 2008, as consolidated in RBI Master circular [*][33], to submit a report on exceptions, noted while issuing our report dated [ ] on additional matters as stated in the above directions, to Reserve Bank of India and should not be used by any other person or for any other purpose. [Name of the Firm] neither accepts nor assumes any duty or liability for any other purpose or to any other party to whom our report is shown or into whose hands it may come without our prior consent in writing.

For [Insert Firm's name]

Firm Registration Number: [Insert Firm's Registration number]

Chartered Accountants

Signature

[Insert Partner's Name]

Partner

Membership Number:

[Place of the Signature]

[Date]

[33] Engagement team to give correct and most recent master circular reference.

Appendix D

Illustrative Returns to be submitted by an NBFC

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
1	Quarterly Returns By deposit taking NBFCs (As required by "Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998".)	Inserted vide Notification no. DFC.118/DG (SPT)-98 dated January 31, 1998 Revised vide CC NO.243 dated September 22, 2011	NBS1	Quarterly	31st March/ 30th June/ 30th September/ 31st December	15 days	15th April/15th July/ 15th Oct/ 15th Jan/	Details of Assets And Liabilities	NBFCs-D
2	Quarterly Statement of Capital Funds, Risk Assets etc as required under the Non-Banking Financial Companies Prudential Norms (Reserve Bank)	Inserted vide Notification No. DNBS. 192 / DG (VL)-2007 dated February 22, 2007 Revised vide CC NO.243 dated September 22, 2011	NBS2	Quarterly	31st March/ 30th June/ 30th September/ 31st December	15 days	15th April/ 15th July/ 15th Oct/ 15th Jan/	Capital Funds, Risk Assets, Asset Classifica-tion, etc	NBFCs-D

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
	Directions 2007 By deposit taking NBFCs								
3	Quarterly Return on Statutory Liquid Assets as per Section 45 IB of the Act By Deposit Taking NBFCs	Inserted vide Notification no. DFC(COC) No.108.ED(JR P)/97 dated April 30, 1997	NBS3	Quarterly	31st March/ 30th June/ 30th September/ 31st December	15 days	15th April/ 15th July/ 15th Oct/ 15th Jan/	Statutory Liquid Assets	NBFCs-D
4	Annual Return on Repayment of Deposits by the Rejected Companies holding Public Deposits (The return was subsequently simplified for better response).	Inserted vide Notification No. 3 /03.02.02/2009 -10 dated August 13, 2009	NBS4	Annual	31st March	30 days	May-01	Details of Public Deposits, Other Liabilities	NBFCs holding public deposits whose application for Certificate of Registration under Section 45-IA of RBI Act, 1934 have been rejected

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
5	Monthly Return on Capital Market Exposure	Inserted vide notification No. DNBS. 192 / DG (VL)-2007 dated February 22, 2007	NBS6	Monthly	Month end	7days	7th day of next month	Details of Capital Market Exposure	NBFCs-D
6	Quarterly Return of Capital Funds, Risk-Asset Ratio from NBFCs-ND-SI (Supervisory Return)	Inserted vide notification no. DNBS.PD/ CC.No. 93 / 03.05.002 /2006-07 dated April 27, 2007 Revised vide CC NO.243 dated September 22, 2011	NBS7	Quarterly	31st March/ 30th June/ 30th September/ 31st December	15 days	15th April/ 15th July/ 15th Oct/ 15th Jan/	Capital Funds, Risk Assets, Risk Weighted off-balance sheet items (Non-Funded Exposures), Asset Classification etc.	NBFCs-ND-SI
7	Asset-Liability Management (ALM) Return	Inserted vide notification no. DNBS (PD).CC.No.15 /02.01 / 2000-2001 dated June 27, 2001	ALM	Half yearly	31st March/ 30th Sept	1 month	30th April/ 30th Oct/	Structural Liquidity, Short-term dynamic liquidity, Interest Rate sensitivity etc.	NBFCs-D having public deposit of Rs 20 crore and/or NBFC having assets size more than 100 crore

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
8 (a)	A Statement of short term dynamic liquidity in format ALM - NBS -ALM1	Inserted vide Notification No. DNBS. 200 / CGM(PK)-2008 dated August 1, 2008	ALM-1	Qrly	Month end	10 days	10th day of next month	Short-term dynamic liquidity	NBFC-ND-SI
8 (b)	Statement of structural liquidity in format ALM - NBS - ALM2		ALM-2	Half yearly	31st March/ 30th Sept	20 days	20th April/ 20th Oct	Structural liquidity	NBFC-ND-SI
8 (c)	Statement of Interest Rate Sensitivity in format ALM - NBS - ALM3.		ALM-3	Half yearly	31st March/ 30th Sept	20 days	20th April/ 20th Oct	Interest Rate sensitivity	NBFC-ND-SI
9	Monthly Return on Important Financial Parameters of NBFCs not accepting/holding public deposits and having asset size of Rs.500 crore and above	Inserted vide DNBS (RID) C.C. No. 57/02.05.15/2005-06 dated September 6, 2005	500 Crore NBFCs-ND-SI	Quarterly	Month end	7days	7th of next month	Sources and Application of Funds, Profit and Loss Account, Asset Classificat-ion, Bank's/FIs exposure on the	NBFC-ND-SI

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
								company, Details of Capital Market Exposure, Foreign Sources etc.	
10	Quarterly return to be submitted by non-deposit taking NBFCs with asset size of Rs 50 crore and above but less than Rs 100 crore.	Inserted Vide DNBS.PD/ CC.No.130 / 03.05.002 /2008-09 dated September 24, 2008		Quarterly	31st March/ 30th June/ 30th September/ 31st December	one month from close of quarter		Basic information like name of the company, address. NOF, profit / loss during the last three years	
11	Quarterly Return to be submitted by NBFCs having overseas investment			Quarterly	31st March/ 30th June/ 30th September/ 31st December	one month from close of quarter		Name of the WOS/JV, Country and date of incorporation , Date of NoC from DNBS, Business undertaken	All NBFCs

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
12	Branch Info Return			Quarterly	31st March/ 30th June/ 30th September/ 31st December	within 10 days from the close of the quarter	10th April/ 10th July/ 10th Oct/ 10th Jan	Branch Information	NBFCs-D
13	Branch Info Return			Quarterly	31st March/ 30th June/ 30th September/ 31st December	within 10 days from the close of the quarter	10th April/ 10th July/ 10th Oct/ 10th Jan	Branch Information	NBFCs-ND-SI
14	Half yearly certificate by NBFC with FDI	DNBS (PD).CC. No 167 /03.10.01 /2009-10 dated February 04, 2010		Half yearly	31st March/ 30th Sept			Compliance with the minimum capitalisation norms and that its activities are restricted to the activities prescribed under FEMA	NBFCs with FDI

Sr. No.	Name of Return	Circular Ref	Title	Periodi-city	Reference Date	Report-ing Time	Due on	Purpose	To be submitted by
15	Overseas Investment	DNBS.(PD)229 / CGM(US)-2011 dated June 14, 2011		Quarterly	31st March/ 30th June/ 30th September/ 31st December	within 15 days from the close of the quarter		Opening of Branch/Subsidiary/Joint Venture/Representative Office or Undertaking Investment Abroad by NBFCs	All NBFCs
16	Annual certificate duly certified by the Statutory Auditors that the company is engaged in the business of NBFI requiring it to hold the CoR	DNBS (PD) C.C. No. 79 / 03.05.002/ 2006-07 September 21, 2006 and DNBS (PD) C.C. No. 81 / 03.05.002/ 2006-07 dated October 19, 2006		Annual	31st March	within one month from finalisation of balan-ce sheet, latest by December 30 of that year		To report that the NBFC is engaged in the business of NBFI, requiring the CoR.	All NBFCs

Appendix E

Illustrative Disclosure Norms for NBFCs as per Prudential Norms and other RBI Directions

A) Disclosures in the Balance Sheet of all NBFCs

1. Provisions made for NPA to be disclosed separately without netting them from the income or against the value of assets.

2. Provisions to be distinctly indicated under separate heads of account as under :

   a. Provisions for bad and doubtful debts; and

   b. Provisions for depreciation in investments.

   Such provisions shall not be appropriated from the general provisions and loss reserves held, if any.

3. The gross provision for each year should be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

4. Every NBFC to disclose the following particulars in its Balance Sheet

   i) Capital to Risk Assets Ratio (CRAR);

   ii) Exposure to real estate sector, both direct and indirect; and

   iii) Maturity pattern of assets and liabilities.

B) Disclosures necessary for NBFC-ND-SI and NBFC-D

1. Registration/ license/ authorisation obtained from other financial sector regulators.

2. Ratings assigned by credit rating agencies and migration of ratings during the year.

3. Penalties, if any, levied by any regulator;
4. Information viz., area, country of operation and joint venture partners with regard to Joint Ventures and Overseas Subsidiaries; and
5. Asset Liability Profile

- Extent of Financing of parent company product
- NPAs and Movement of NPAs during the year
- Details of all off balance sheet exposure
- Structured products issued as also securitisation transaction

C) Disclosure for NBFC-ND-SI having asset size Rs. 1000 Crore or above and all NBFC-D

a. Capital to risk assets ratio (CRAR):

	As at Mar-XX	**As at Mar-XX-1**
CRAR (%)		
CRAR - Tier I Capital (%)		
CRAR - Tier II Capital (%)		
Amount of Subordinated Debt considered as Tier-II Capital		
Amount raised by issue of Perpetual Debt Instruments		

b. Details of Investments

Particulars	**As at Mar-XX**	**As at Mar-XX-1**
Value of Investments		
Gross value of Investments (a) In India	X	X

(b) Outside India		
Provision for depreciation (a) In India (b) Outside India	X	X
Net value of Investments (a) In India (b) Outside India	X	X
Movement of provisions held towards depreciation on investments		
Opening Balance	X	X
Add : Provisions made during the year	X	X
Add / (less) : Premium amortised on debentures, bonds and government securities	X	X
Less : Write-off / write-back of excess provisions during the year	X	X
Closing Balance	X	X

c. Investor Group wise classification of investments

Particulars	**As at Mar-XX**		**As at Mar-XX-1**	
	Market value/ Break up value/ Fair value/ NAV	**Book value net of provision**	**Market value/ Break up value/Fair value/NAV**	**Book value net of provision**
1. Related Parties (a) Subsidiaries (b) Companies in the same group (c) Other related parties	X	X	X	X
2. Other than Related Parties	X	X	X	X

d. Derivatives

Forward Rate Agreement/ Interest Rate Swap (Current Year and Previous Year)

a. The notional principal of swap agreements

b. Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements

c. Collateral required by the NBFC upon entering into swaps

d. Concentration of credit risk arising from the swap

e. Fair value of Swap book

Exchange Traded Interest Rate (IR) Derivatives

a. Notional principal amount of exchange traded IR derivatives undertaken during the year (instrument-wise)

b. Notional principal amount of exchange traded IR derivatives outstanding as on 31st March (instrument-wise)

c. Notional principal amount of exchange traded IR derivatives outstanding and not "highly effective" (instrument-wise)

d. Mark-to-market value of exchange traded IR derivatives outstanding and not "highly effective" (instrument-wise)

Disclosure on Risk Exposure in Derivatives

Qualitative Disclosure

NBFCs shall describe their risk management policies pertaining to derivatives with particular reference to the extent to which derivatives are used, the associated risks and business purposes served.

- The NBFC should include the structure and organization for management of risk in derivatives trading,

- the scope and nature of risk measurement, risk reporting and risk monitoring system.
- Policies for hedging and mitigating risk and strategies and processes for monitoring the continuity effectiveness of hedges and mitigants.
- accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

Quantitative Disclosure

For Currency derivatives and interest rate derivatives:

a. Derivatives (Notional Principal Amount)

For hedging

b. Market to Market Positions

Asset (+)

Liability (-)

c. Credit Exposure

d. Unhedged Exposures

e. Disclosure of Restructured Accounts (Current Year and Previous Year)

		Standard	**Sub-Standard**	**Doubtful**	**Loss**	**Total**
Restructured accounts as on April 1	No. of borrowers					
	Amount outstanding					
	Provision thereon					

Fresh restructuring during the year	No. of borrowers					
	Amount outstanding					
	Provision thereon					
Upgradation	No. of borrowers					
	Amount outstanding					
	Provision thereon					
Restructured standard advances which cease to attract higher provisioning and /or additional risk weight at the end of the year and hence need not be shown as restructured advances at the beginning of the next year	No. of borrowers					
	Amount outstanding					
	Provision thereon					
Down gradation of restructured accounts during the year	No. of borrowers					
	Amount outstanding					
	Provision thereon					
Write off of restructured accounts during the year	No. of borrowers					
	Amount outstanding					
	Provision thereon					
Restructured accounts as on March 31	No. of borrowers					
	Amount outstanding					
	Provision thereon					

f. Exposure to Real Estate Sector

Particulars	As at Mar-XX	As at Mar-XX-1
Direct exposure		
(i) Residential Mortgages Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented.	X	X
(ii) Commercial Real Estate Lending fully secured by mortgage (including securities in the process of being created) on commercial real estates (office building, retail space, multipurpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.) Exposure would also include non-fund based (NFB) limits.	X	X
(iii) Investments in Mortgage Backed Securities (MBS) and other securitized exposures a. Residential b. Commercial Real Estate	X	X
(iv) Indirect exposure		
(i) Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	X	X
(ii) Investment in venture capital funds which primarily invests into commercial real estates.	X	X

g. Exposures to Capital Market

Particulars	As at Mar-XX	As at Mar-XX-1
i. Direct investments in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt.	X	X
ii. Advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures and units of equity-oriented mutual funds.	X	X
iii. Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds are taken as primary security.	X	X
iv. Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds i.e. where primary security other than shares/convertible bonds/convertible debentures/units of equity-oriented mutual funds does not fully cover the advances.	X	X
v. Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers.	X	X

vi. Loans sanctioned to corporates against the security shares/bonds/ debentures other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources.	X	X
vii. Bridge loans to companies against expected equity flows/issues.	X	X
viii. All exposures to Venture Capital Funds (both registered and unregistered).	X	X

h. Details of Single Borrower Limit and Borrower Group Limit exceeded by the NBFC

The NBFC should make appropriate disclosure in the Notes to the annual financial statements in respect of the exposures where the NBFC had exceeded the prudential exposure limits during the year. The sanctioned limit or entire outstanding, whichever is high, shall be reckoned for exposure limit.

i. Unsecured Advances

NBFCs should also disclose the total amount of advances for which intangible securities such as charge over the rights, licenses, authority, etc. has been taken as also the estimated value of such intangible collateral. The disclosure may be made under a separate head in Notes. This would differentiate such loans from other entirely unsecured loans.

j. Maturity Pattern of certain items of assets and liabilities

Items to be disclosed like Deposits, Advances, Investments, Borrowings, Foreign currency assets, foreign currency liabilities etc. For an illustrative format, refer table below:

Current Year/ Previous Year

	1 day to 30/31 days (one month)	Over one month to two months	Over two months to three months	Over three months to six months	Over six months to one year	Over one year to three years	Over three years to five years	Over five years	Total
LIABILITIES									
Borrowings from Bank									
Market borrowings									
ASSETS									
Advances									
Investments									

k. Securitisation

The NTA of the originating NBFCs should indicate the outstanding amount of securitised assets as per books of the SPVs sponsored by the NBFC and total amount of exposures retained by the NBFC as on the date of balance sheet to comply with the Minimum Retention Requirements (MRR). These figures should be based on the information duly certified by the SPV's auditors obtained by the originating NBFC from the SPV. These disclosures should be made in the format given below.

(i) No of SPVs sponsored by the NBFC for securitisation transactions

(ii) Total amount of securitised assets as per books of the SPVs sponsored

(iii) Total amount of exposures retained by the NBFC to comply with MRR as on the date of balance sheet

(iv) Amount of exposures to securitisation transactions other than MRR

l. Details of Financial Assets sold to Securitisation / Reconstruction Company (SC/RC) for Asset Reconstruction (Current Year and Previous Year)

i) Number of accounts

ii) Aggregate value (net of provisions) of accounts sold to SC / RC

iii) Aggregate consideration

iv) Additional consideration realized in respect of accounts transferred in earlier years

v) Aggregate gain / loss over net book value

m. Details of Assignment transactions undertaken by NBFCs (Current Year and Previous Year)

i) Number of accounts

ii) Aggregate value (net of provisions) of accounts sold

iii) Aggregate consideration

iv) Additional consideration realized in respect of accounts transferred in earlier years

v) Aggregate gain / loss over net book value

n. Details of non-performing financial assets purchased (Current Year and Previous Year):

i. Number of accounts purchased during the year

ii. Aggregate outstanding

iii. Of these, number of accounts restructured during the year and aggregate outstanding

Details of non-performing financial assets sold (Current Year and Previous Year):

i. Number of accounts

ii. Aggregate outstanding

iii. Aggregate consideration received

o. As required in terms of Paragraph 13 of Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

1. Liability Side

Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid

2. Asset Side

Break-up of Loans and Advances including bills receivables

(i) Secured

(ii) Unsecured

3. Break up of Leased Assets and stock on hire counting towards AFC activities

- Lease assets including lease rentals under sundry debtors :
  - (i) Finance lease
  - (ii) Operating lease
- **Stock on hire including hire charges under sundry debtors**
  - (i) Assets on hire
  - (ii) Repossessed assets
- **Other loans counting towards AFC Activities**
  - (i) Loans where assets have been repossessed

(ii) Loans other than (i) above

- **Breakup of Investments**

(i) Current Investments

(ii) Non- current investments

4. Borrower Group wise classification of assets financed

Particulars	As at Mar-XX	As at Mar-XX-1
1. Related Parties (a) Subsidiaries (b) Companies in the same group (c) Other related parties	X	X
2. Other than Related Parties	X	X

5. Other Information

Particulars	As at Mar-XX	As at Mar-XX-1
1. Gross Non Performing Assets (a) Related Parties (b) Other than related parties	X	X
2. Net Non Performing Assets (a) Related Parties (b) Other than related parties	X	X
3. Assets acquired in satisfaction of debt	X	X

D) Additional Disclosures

a. Provisions and Contingencies (Current Year and Previous Year)

i) Provision for depreciation in value of investments

ii) Provision towards NPA

iii) Provision made towards Income Tax

iv) Other Provisions and contingencies

v) Contingent provision against standard assets

b. Draw Down from Reserves

c. Concentration of Deposits, Advances, Exposures and NPAs

- Disclosure total deposits /advances/ exposures of 20 largest depositors/borrowers and percentage of deposits/ advances/ exposure of 20 largest depositors/borrowers to total deposits/ advances/ exposure of the NBFC
- Disclosure total exposures to top four NPA accounts

d. Sector wise NPAs

To disclose percentage of NPAs to total advances in that sector

(i) Agriculture & allied activities

(ii) MSME

(iii) Corporate borrowers

(iv) Services

(v) Unsecured personal loans

(vi) Auto Loans and

(vii) other personal loans

e. Movement of NPAs (Current Year and Previous Year)

i. Net NPA to net advances (%)

ii. Movement of NPA (Gross) during the Year
iii. Movement of Net NPA during the year
iv. Movement for provision on NPA (excluding provision on standard asset) during the year

f. **Overseas Assets** (for those with Joint Ventures and Subsidiaries abroad)

Off-balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms)

Name of the SPV sponsored overseas and domestic.

g. The following additional information is disclosed in terms of the RBI circular (Ref. No. RBI/2009-2010/356/IDMD/4135/11.08.43/2009-10) dated March 23, 2010:

Repo Transactions (in face value terms)

	Year ended March 31, 2015				**Year ended March 31, 2014**			
	Minimum outstanding during the year	**Maximum outstanding during the year**	**Daily average outstanding during the year**	**Outstanding as at March 31, 2015**	**Minimum outstanding during the year**	**Maximum outstanding during the year**	**Daily average outstanding during the year**	**Outstanding as at March 31, 2014**
Securities sold under repos (i) Government securities (ii) Corporate debt securities	X	X	X	X	X	X	X	X

Securities purchased under reverse repos (i) Government securities (ii) Corporate debt securities	X	X	X	X	X	X	X	X

h. Penalties / fines imposed by the RBI and other regulators

Penalties imposed by any regulators or directions or adverse finding in inspection report.

i. Ratings assigned by credit rating agencies and migration of ratings during the year

j. Disclosure of Complaints

No. of complaints pending at the beginning of the year

No. of complaints received during the year

No. of complaints redressed during the year

No. of complaints pending at the end of the year

E. For NBFC-MFIs

In respect of loans extended by NBFC-MFIs against funding by National Scheduled Castes Finance & Development Corporation(NSFDC) the funding should be done by direct credit to the borrower's account with banks. Such NBFCs should make appropriate disclosure in their balance sheet. The minimum disclosures should include quantum of funds received from NSFDC, cost of such funds, loans disbursed therefrom, rate of interest on such loans and the number of beneficiaries.

Appendix F

Illustrative List of Master Circulars

1. **Master Circular – Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9818

2. **Master Circular – "Non-Banking Financial Companies – Corporate Governance (Reserve Bank) Directions, 2015"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9819

3. **Master Circular - Returns to be submitted by NBFCs**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9896

4. **Master Circular – "Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9820

5. **Master Circular - Allied activities- Entry into insurance business, issue of credit card and marketing and distribution of certain products**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9821

6. **Master Circular- Exemptions from the provisions of RBI Act, 1934**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9822

7. **Master Circular - Fair Practices Code**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9823

8. **Master Circular – Frauds –Future approach towards monitoring of frauds in NBFCs**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9824

9. **Master Circular – "Infrastructure Debt Fund-Non-Banking Financial Companies (Reserve Bank) Directions, 2011"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9825

10. **Master Circular – "Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9826

11. **Master Circular- 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9827

12. **Master Circular – "Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9828

13. **Master Circular – "Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9829

14. **Master Circular – "Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015"**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9830

15. **Master Circular – Opening of Branch/Subsidiary/Joint Venture/ Representative office or Undertaking Investment Abroad by NBFCs**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9831

16. **Master Circular– Regulatory Framework for Core Investment Companies (CICs)**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9832

17. **Master Circular – 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards (AML) - 'Prevention of Money Laundering Act, 2002 - Obligations of NBFCs in terms of Rules notified thereunder'**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9914

18. **Master Circular - Miscellaneous Instructions to all Non-Banking Financial Companies**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9913

19. **Notification as amended up to June 30, 2015 - The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003**

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9901

20. Notification as Amended upto June 30, 2015 - Change in or Take Over of the Management of the Business of the Borrower by Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines, 2010

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9888

21. Notification as amended upto June 30, 2015 - "Mortgage Guarantee Companies (Reserve Bank) Guidelines, 2008" on Registration and Operations of Mortgage Guarantee Company

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9884

22. Notification as Amended upto June 30, 2015 'Mortgage Guarantee Companies Investment (Reserve Bank) Directions, 2008'

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9876

23. Notification as amended upto June 30, 2015 - "Mortgage Guarantee Companies Prudential Norms (Reserve Bank) Directions, 2008"

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9871

24. Master Circulars- Miscellaneous Instructions to NBFC- ND-SI

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9835

25. Master Circular – The Non-Banking Financial Company - Factors (Reserve Bank) Directions, 2012

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9834

26. Master Circular– Requirement for Obtaining Prior Approval of RBI in Cases of Acquisition / Transfer of Control of NBFCs (As amended up to August 04, 2015)

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9833

Relevant Circulars issued post issue of Master Circulars (Upto July 7, 2016)

1. Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) (August 28, 2015)

https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10005&Mode=0

2. Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) – Guidance Note (August 31, 2015)

https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10009&Mode=0

3. Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications (October 1, 2015)

https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10053&Mode=0

4. Format of Statutory Auditors' Certificate (SAC) to be submitted by NBFCs (June 23, 2016)

With a view to ensure consistency in the manner in which the information is received from the Auditors, it has been decided to introduce a uniform format of the SAC. Refer illustrative report format in Appendix B

https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10460&Mode=0

ICAI Announcement dated September 18, 2007

http://www.icai.org/resource_file/7945announ1158.pdf

Audits of NBFCs

Non-Banking Finance Companies (NBFCs) are playing a vital role as the financial resource mobiliser in India given the country's geographical and population spread. However, having regard to the locations at which they generally operate, the type of clientele they serve and the some of instances of fraudulent/ mismanaged NBFCs, the Reserve Bank of India (RBI) established a strict regulatory framework for operation of NBFCs. Annual statutory audit of the NBFCs, including the NBFC Auditor's Report (Reserve Bank) Directions, 1998 constitutes important pillar of that framework. The aforesaid Directions include a number of reporting responsibilities, including making of exception reports, for the statutory auditors of NBFCs.

The Institute of Chartered Accountants of India has recently received a communication from the Department of Non-Banking Supervision of the RBI in respect of audit of NBFCs. In its said communication the Reserve Bank of India has given an illustrative inclusive list of irregularities in NBFCs, required to be reported by the statutory auditors of NBFCs in terms of the requirements of the aforesaid Directions, but one or more of which have not been reported by some of the statutory auditors.

The abovementioned list is as follows:

- Net Owned Funds below the minimum required level not reported.
- Item not eligible for inclusion in 'Free Reserve' for the purpose of calculation of Net Owned Fund not excluded nor reported e.g. Share Premium included in Free Reserve in case where the shares are redeemable at premium and the NBFC has not created any redemption reserve.

- Company engaged in the business of Non-Banking Financial Institution without obtaining Certificate of Registration from the Reserve Bank of India.
- Failure to comply with the prudential in terms of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- Non-reporting of downgrading of credit rating of deposit-taking NBFCs having bearing on the quantum of deposits permissible under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
- Failure to report passing of Board Resolution by NBFCs (Non Deposit Taking) that they shall not accept public deposits.
- Failure to report acceptance of deposit by the NBFCs in excess of the quantum of deposits permitted in terms of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
- Failure to report adherence to conditions subject to which a company is classified as Core Investment Company.

Members are requested to take note of the above.