

Corpsec Hotline

October 10, 2005

RBI TO REGULATE BANK EXPOSURE TO NBFCs

In a bid to guard against diversion of bank funds to the stock market, the Reserve Bank of India (RBI) which is the central bank, is actively considering clamping down on the exposures banks have to non-banking finance companies (NBFCs) that do not accept deposits from the public.

The RBI 's concern follows the recent increase in the activities of such NBFCs and requests from a number of foreign and private sector banks to set up non-deposit taking NBFCs. Unlike deposit-taking NBFCs, where regulations have been tightened , there are virtually no regulatory guidelines governing NBFCs that do not accept deposits from the public. The RBI , is therefore, considering exercising some control over these NBFCs by stipulating limits on banks regarding the extent of their exposure to such NBFCs. Banks are currently not allowed to lend more than 5% of their advances as at the end of the previous financial year for stock market related activities. Most banks are understood to be well within these limits. However, it is feared their exposure to the capital market may be much higher through the NBFC route. Apart from loans, banks have been subscribing in a big way to commercial papers floated by NBFCs. The RBI is unlikely to wait till the mid-term review of its Annual Policy on October 25 for making public the new lending limit of the banks to NBFCs.

Earlier, RBI had expressed its concern over the issue that bank funds may be diverted to the capital markets, fuelling a rise in stock prices. The central bank is eager to end the practice of 'regulatory arbitrage' under which some banks are trying to take advantage of the looser regulatory norms governing NBFCs to engage in activities that are currently out of bounds to them.

-Mini Raman & Siddharth Shah

You can direct your queries or comments to the authors

Source: Financial Express dated 10th October 2005

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

New Age of Franchising

June 20, 2025

Life Sciences 2025

June 11, 2025

The Tour d'Horizon of Data Law Implications of Digital Twins

May 29, 2025

Research Articles

2025 Watchlist: Life Sciences Sector India

April 04, 2025

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

April 01, 2025

**SIAC 2025 Rules: Key changes &
Implications**

February 18, 2025
