

AMENDMENTS IN RBI-NBFC REGULATORY FRAMEWORK DURING FY 2024-25

1. Revised NPA Classification Norms and Transition Period under SBR Master Directions, 2023

Under the updated framework, the overdue period for all categories of NBFCs has been standardized, with a uniform threshold of more than 90 days for the classification of an asset as non-performing. NBFCs must now comply with the revised classification timelines. Additionally, a transition period has been granted for Base Layer NBFCs to align with the new requirement as outlined below:

NPA OVERDUE PERIOD	TRANSITION TIMELINE
> 120 days overdue	By March 31, 2025
> 90 days overdue	By March 31, 2026

2. Revised Net Owned Funds (NOF) Requirements for NBFCs- 22nd October, 2021

Pursuant to Paragraph 6 of Chapter III of the SBR Master Directions, and exercising the powers conferred upon it, RBI has revised the NOF requirements for various categories of NBFCs to commence or continue business operations. The revised NOF requirements are as follows:

NBFC Category	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹2 Crore	<u>₹5 Crore</u>	₹10 Crore
NBFC-MFI	₹5 Crore (₹2 Crore for NE Region)	<u>₹7 Crore (₹5 Crore for NE Region)</u>	₹10 Crore
NBFC-Factor	₹5 Crore	<u>₹7 Crore</u>	₹10 Crore

3. Master Direction on Fair Practices Code for Lenders – Charging of Interest issued on April 29, 2024:

The Reserve Bank of India issued revised guidelines to ensure **fairness and transparency in how regulated entities (REs) charge interest on loans**. Key issues included charging interest from the date of loan sanction or cheque issuance (rather than disbursement), billing full-month interest for partial-month loan periods, and collecting advance instalments while calculating interest on the full loan amount. Such practices violate customer fairness principles. REs has been instructed to refund excess interest and move toward digital disbursals over cheques. All REs must review and correct their interest charging and disbursal processes immediately. The directive is effective immediately from the date of issue.

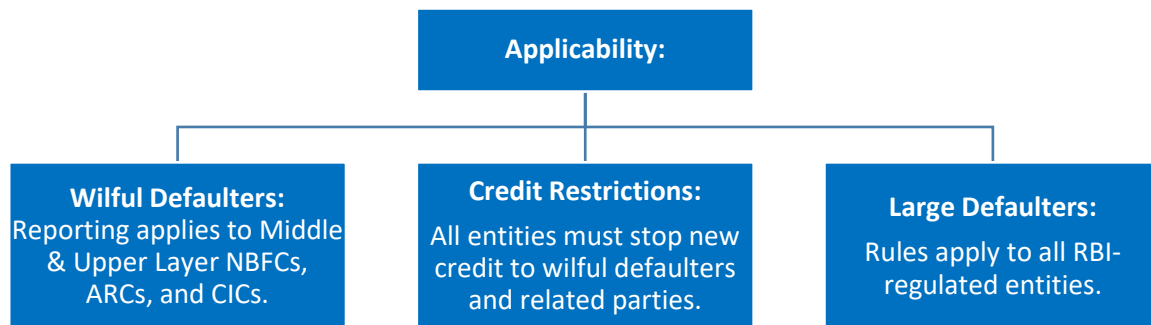
4. RBI Notification on Key Fact Statement:

The RBI through a notification dated 15th April 2024, has mandated Regulated Entities (REs) to provide **Key Fact Statement (KFS)** for retail and Micro, Small & Medium Enterprise (MSME) loans starting October 1, 2024. The initiative aims to standardize loan disclosures across banks, co-operative banks, and NBFCs, ensuring transparency and helping borrowers make informed financial decisions. REs are required to fully comply with this mandate for all new and fresh loans.

The KFS, provided in a simple and standardised format, must include the Annual Percentage Rate (APR), amortisation schedule, charges, fees, and other key terms. It must be explained to the borrower that, with a validity period of at least three working days for loans with a tenure of seven days or more. No fees beyond those disclosed in the KFS can be levied without the borrower's explicit consent. The KFS must also form part of the loan agreement and assist borrowers in making informed financial decisions.

5. **Master Direction on Treatment of Wilful Defaulters and Large Defaulters:**

The Reserve Bank of India (RBI), on July 30, 2024, issued the Master Directions on the Treatment of Wilful Defaulters and Large Defaulters, which came into effect from October 28, 2024.



NBFC Guidelines:

- Only Middle & Upper Layer NBFCs can classify and report wilful defaulters.
- All NBFCs must restrict credit and report large defaulters (₹1 crore+).
- Base Layer NBFCs must submit monthly reports to CICs and monitor the RBI's wilful defaulter list.

6. **Master Directions on Fraud Risk Management:**

On July 15, 2024, the RBI issued updated Master Directions on Fraud Risk Management for NBFCs including HFCs, superseding the 2016 guidelines. These directions strengthen the Board's role in fraud governance and establish a framework for fraud prevention, detection, and timely reporting.

The directions apply to all NBFCs (including HFCs) in the Base Layer with asset size of ₹500 crore and above, Middle Layer entities and Upper Layer entities.

NBFCs must now implement an **Early Warning Signals (EWS)** framework to identify potential fraud through "Red Flag Accounts." A Board-level committee must oversee its effectiveness, and audits must be conducted in suspected fraud cases per Board-approved policy. These directions are effective immediately.

Reporting requirements include:

- Reporting all fraud cases to RBI via FMR returns within 14 days.
- Email reporting of fraud by unregulated group entities.
- Reporting thefts, burglaries, or similar incidents to RBI within 7 days.

7. Guidance Note on Operational Risk Management and Operational Resilience

The Reserve Bank of India (RBI), through its press release dated April 30, 2024, issued the Guidance Note on Operational Risk Management and Operational Resilience (hereinafter referred to as the "Guidance Note"). This Guidance Note aligns the RBI's regulatory framework with the principles established by the Basel Committee on Banking Supervision (BCBS), specifically:

- (a) Revisions to the Principles for the Sound Management of Operational Risk, and
- (b) Principles for Operational Resilience — both published in March 2021.

The Guidance Note incorporates global best practices, particularly in the area of operational resilience. The Guidance Note is applicable for all Non-Banking Financial Companies including Housing Finance Companies. The systems, procedures, and tools outlined within the document are indicative and are intended to be read in conjunction with relevant RBI instructions issued from time to time.

8. Amendment to the Frequency of reporting of Credit Information by Credit Institutions to Credit Information Companies

The Reserve Bank through circular No. RBI/2024-25/60 DoR.FIN.REC.No.32/20.16.056/2024-25 dated 8th August, 2024 directed the Credit Institutions (CIs) and Credit Information Companies (CICs) to ensure that credit information is regularly updated on a **fortnightly basis** (i.e., as on 15th and last day of the respective month) or at such shorter intervals as mutually agreed upon between the CI and the CIC.

The fortnightly submission of credit information by CIs to CICs shall be ensured within seven (7) calendar days of the relevant reporting fortnight. **These instructions came into effect from January 1, 2025.**

Additionally, through a circular dated October 10, 2024, the RBI issued instructions to address borrower concerns following the cancellation of licences or Certificates of Registration (CoR) of banks and Non-Banking Financial Companies (NBFCs). The RBI mandated that all such entities whose licence or CoR has been cancelled will continue to be classified as "Credit Institutions" for the purpose of credit reporting. These entities are required to continue submitting credit information to all four CICs for borrowers that had been onboarded and reported prior to the cancellation, until either the full loan lifecycle concludes or the institution is wound up—whichever occurs first.

9. Master Direction on Credit Information Reporting, 2025

The **Master Direction – RBI (Credit Information Reporting) Directions, 2025** consolidates all previous circular to streamline and standardize the credit information reporting framework. Key provisions include mandatory reporting of credit data to all Credit Information Companies (CICs) on a fortnightly basis (**on the 15th and the last day of each month**). Further, as per Circular RBI/2024-25/60 DoR.FIN.REC.No.32/ 20.16.056/2024-25, dated August 8, 2024, such data must be reported within seven days of the reference dates. All NBFCs, except those engaged purely in investment activities without customer interface, must register with all RBI-approved CICs and notify customers about defaults or delays through SMS/email. NBFCs are required to conduct a

Root Cause Analysis (RCA) of credit data-related grievances every six months and report findings to top management annually. A compensation of ₹100 per day is payable if complaints remain unresolved within 30 days or credit data isn't updated within 21 days of notification. NBFCs must also designate a nodal officer for grievance redressal and inform CICs of any changes within five days.

10. Amendment to the Master Direction - Know Your Customer (KYC) Direction, 2016

The RBI, via a circular dated November 6, 2024, has amended the Master Direction – KYC Direction, 2016, to align with recent changes to the PML (Maintenance of Records) Rules. The key update mandates that **Customer Due Diligence (CDD)** be conducted at the Unique Customer Identification Code (UCIC) level. This means customers who have already completed KYC with a regulated entity need not repeat it when availing new services within the same entity. Additionally, any updated customer information must be reported to the Central KYC Records Registry (CKYCR) within seven days or as specified by the government, ensuring up-to-date and accurate records.

11. Revised Master Circular on Bank Finance to NBFCs

The Reserve Bank of India (RBI) released a revised Master Circular dated 1st April, 2025 on bank financing to Non-Banking Financial Companies (NBFCs). This circular is applicable to all Scheduled Commercial Banks, with the exception of Regional Rural Banks (RRBs).

The updated circular consolidates all relevant instructions and guidelines issued up to March 31, 2025, thereby serving as a comprehensive reference for banks in their lending operations to NBFCs. It supersedes the previous Master Circular dated April 24, 2024, and aims to streamline and clarify the regulatory framework governing such financing activities.

12. Clarification on Enhanced Net Owned Fund (NOF) Requirement for NBFCs-21st March, 2025

The Reserve Bank of India (RBI) has issued clarifications delineating the categories of Non-Banking Financial Companies (NBFCs) that are required to maintain a minimum Net Owned Fund (NOF) of ₹10 crore and those that may continue to comply with the earlier NOF requirement of ₹2 crore.

COR ISSUANCE	CONDITIONS	NOF REQUIREMENT
NBFCs issued CoR after June 17, 2016	- Issued Type II NBFC CoR - Considered to have a plan to operate with public funds and customer interface	₹10 crore (compulsory)
NBFCs issued CoR before June 17, 2016	- Convert to Type I NBFC	₹2 crore
	- Do not convert to Type I NBFC (regardless of whether they use public funds or customer interface)	₹10 crore

13. IT Governance: Reserve Bank of India (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2023

The Reserve Bank of India, via its notification dated November 7, 2023, has issued Directions establishing a robust IT governance framework for specified Regulated Entities (REs), including NBFCs falling under the Top, Upper, and Middle Layers. These Directions come into effect from April 1, 2024.

It **mandates a strong IT governance framework** with clear board and senior management oversight, formal roles and responsibilities, and active accountability for managing IT and cyber risk. Entities must implement formal information security and cyber-security policies, appoint a dedicated Chief Information Security Officer (CISO) and specialized committees, and establish incident-response protocols to address cyber threats. Institutions must maintain formal Business Continuity Plan and Disaster Recovery plans, conduct regular drills/tests, and set clear recovery time objectives (RTO).