



Allied Laws Bulletin

# N. A. SHAH BULLETIN

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## **Prompt Corrective Action Framework for Non-Banking Financial Companies**

Earlier, RBI had prescribed Prompt Corrective Action (PCA) for Scheduled Commercial Banks. The objective of the PCA framework is to enable supervisory intervention and require the supervised entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health.

Now, as the NBFCs have been growing in size and have substantial interconnectedness with other segments of the financial system, RBI has now introduced a PCA framework for NBFCs.

Key points of the framework are mentioned below:

### **1. Coverage**

- All deposit taking NBFCs
- Non-Deposit taking NBFCs with asset size of INR 1,000 crore and above
- Core Investment Companies (CIC), Infrastructure Debt Funds, Infrastructure Finance Companies and Micro Finance Institutions

### **2. Out of Coverage:**

- NBFCs not accepting/not intending to accept public funds, Government companies, Primary Dealers and Housing Finance companies.

### **3. Basis for selection of NBFC**

- In addition to RBI's discretion an NBFC shall be placed under PCA framework in the event of breach of risk threshold based on audited annual financial results and/or the supervisory assessment made by RBI.
- The risk thresholds have been defined based on the category of the entity to be capital risk adequacy ratio, NNPA ratio, and Tier I Capital Ratio for covered NBFCs and Adjusted Net Worth to risk weighted assets, Leverage ratio and NNPA ratio for CICs.

### **4. Exit from PCA and withdrawal of Restrictions under PCA**

- Exit of an NBFC out of PCA shall be considered:

- a) If no breaches in risk thresholds in any four continuous quarterly financial statements including one annual audited financial statement; and
- b) Based on Supervisory comfort of the RBI.

**5. Corrective Actions**

Based on the category of risk threshold under which the NBFC falls based on breach of the threshold, mandatory corrective actions shall be undertaken as follows:

<b>Particulars</b>	<b>Mandatory Corrective Actions</b>
Risk Threshold 1	<ul style="list-style-type: none"> <li>o Restriction on dividend distribution/remittance of profits;</li> <li>o Promoters/shareholders to infuse equity and reduction in leverage;</li> <li>o Restriction on issue of guarantees (only for CICs)</li> </ul>
Risk Threshold 2	In addition to mandatory actions of Threshold 1, <ul style="list-style-type: none"> <li>o Restriction on branch expansion</li> </ul>
Risk Threshold 3	In addition to mandatory actions of Threshold 1 & 2, <ul style="list-style-type: none"> <li>o Appropriate restrictions on capital expenditure</li> <li>o Restrictions/reduction in variable operating costs</li> </ul>

RBI has also prescribed set of discretionary actions which can be undertaken by the NBFC upon breach of Risk Thresholds.

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