

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organization for Registered NBFCs)
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February 04, 2017

Shri Arun Jaitleyji
Minister of Finance
Government of India
North Block
New Delhi - 110 001.

Hon'ble Finance Minister Sir,

SUB: POST-BUDGET MEMORANDUM – CONVERGENCE IN REGULATION OF NBFCs WITH BANKS & OTHER FIs NEEDS TO BE MATCHED WITH CONVERGENCE IN TAXATION

Finance Industry Development Council (FIDC) is a Self Regulatory Organization (SRO) cum Representative Body of all the Non-Banking Finance Companies (NBFCs) registered with Reserve Bank of India and engaged in Asset Financing. We would like to express our sincere thanks to Ministry of Finance for inviting us to present our views/issues during the Pre-Budget Discussion held on December 20, 2016.

We hereby convey our sincere appreciation for presenting the “Union Budget for a Better India”. The special emphasis given on Agriculture, Rural Development MSMEs and Infrastructure will surely boost the country’s growth and continue to make India as a bright spot in the world economic landscape.

Regulation of NBFCs “Harmonised” with that for Banks and FIs

Sir, the regulatory framework for NBFCs has undergone major changes since 2014, with the prime objective of “removing the regulatory arbitrage and harmonise the regulation with that for banks and other financial institutions”. While we fully recognise and appreciate the need for such convergence but certainly expect the same in taxation matters also.

RBI has brought convergence in Prudential Norms for banks, financial institutions, housing finance companies and NBFCs, especially in matters relating to “Classification of Assets as NPAs, Provisions to be made thereon and Recognition of income on NPAs”. *The crying need of the hour is to bring similar convergence in recognition of income on NPAs, for tax purposes also.*

Union Budget 2017 Proposes to Extend Coverage of Section 43D to Co-operative Banks – NBFCs Left Out

It is logical to recognise income on NPAs on ‘receipt’ basis and not on “accrual basis” in order to present the correct picture, as has been mandated by RBI and Section 43D of the Income Tax Act 1961. However, the provisions of Section 43D are only applicable to scheduled banks, public financial institutions, state financial corporations, state industrial corporations and housing finance companies. Union Budget 2017 has proposed to extend the coverage to Co-operative banks (other than a Primary Agricultural Society or a Primary Cooperative Agricultural Rural Development Bank).

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NBFCs are the only financial institutions which have been left out. This discrimination against NBFCs is disappointing and discouraging. We at FIDC have been requesting the same for a long time now. Our Pre-Budget Memorandum dated December 20, 2016 had also made a request to this regard and the undersigned had requested for the same during the discussion held in the Pre-Budget Meeting held on December 20, 2016.

Request - SOS

Sir, the Financial Stability Report dated June 2016, released by RBI, has clearly highlighted the healthy growth shown by the NBFC sector, in spite of the tough economic conditions, and their increased contribution to meet the credit demand, especially in the unbanked segment.

We therefore request you to do justice and kindly extend the scope of Section 43D to RBI registered NBFCs also.

We thank you in anticipation of a positive response and assure you of our full co-operation always.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**



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Chairman

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