

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFC-AFCs)

September 06, 2008

Mr. P. Krishnamurthy
Chief General Manger-In-Charge
Deptt. of Non-Banking Supervision
Reserve Bank of India
Central Office, Centre-I,
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Cuffe Parade, Colaba,
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Respected Sir,

Reg.: Alternative to Creation of Floating Charge on SLR Securities and Request for Allowing Investment in FD/Bonds Issued by Financial Institutions for Maintenance of SLR

This has reference to our letter dt. July 11, 2008, subsequent to the meeting held on July 02, 2008 in the office of the Executive Director, RBI. We would like to suggest and request the following:

1. Alternative to Creation of Floating Charge on our SLR Securities

The issue of inability on the part of majority of the deposit taking NBFCs to find a Trustee as per the guidelines laid down in the RBI circular dt. January 04, 2007 is pending for 20 months now. During our meeting with the Hon'ble Governor in the month of April 2008 and the above said meeting with the Executive Director in July 2008, we were informed that RBI is discussing this matter with Indian Banks Association. However, the problem continues and banks are not willing to act as the Trustee.

We had mentioned in the above said meeting held with Executive Director that FIDC shall suggest an alternative to RBI. In this context we would like to state the following:

- a) The prime concern of RBI in issuing the circular was to devise a mechanism which shall prevent misuse of SLR Securities by NBFCs for the purpose other than the prescribed purpose
- b) We need to evolve a mechanism which ensures regular monitoring by RBI of the SLR Securities held by NBFCs.

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- c) The mechanism should also be easy to comply with and should not burden the small & medium NBFCs with additional financial costs.

Keeping in mind the above said factors, we would like to suggest that all deposit taking NBFCs should be required to submit a copy of the Statement of their Demat account (used exclusively for transactions in SLR Securities) and also a copy of the certificate obtained from their bankers/ stock holding corporations with whom the SLR Securities (including Bank FDs) which are held in physical form have been entrusted with. These documents should be submitted along with the Return on maintenance of prescribed SLR in Form NBS-3 to be submitted on quarterly basis.

2. Investment in Fixed Deposit/ Bonds Issued by Financial Institutions to be accepted for SLR purpose

Three years back, Hon'ble Governor had announced in the credit policy that SIDBI and NABARD should undertake funding of NBFCs. Subsequently SIDBI started funding Asset Financing NBFCs by way of providing term loans. In order to maintain a healthy business relationship, NBFCs would prefer to invest in Fixed Deposits with SIDBI.

We therefore request you to kindly allow deposit taking NBFCs to invest in Fixed Deposits/ Bonds issued by Financial Institution like SIDBI and NABARD for the purpose of maintaining the prescribed SLR. This may be treated at par with Fixed Deposits with scheduled commercial banks, which are allowed to the extent of 5% (out of the total 15%) of the total deposits held by the NBFCs.

We hope to receive a positive reply from your end. Assuring you of our full co-operation always and thanking you in anticipation

Yours faithfully,



Raman Aggarwal
Co-Chairman
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