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Recent Reserve Bank of India Developments on Draft Framework for Recognising Self-Regulatory Organisations for the FinTech Sector, Draft circular on Review of regulatory framework for HFCs and harmonization of regulations applicable to HFCs and NBFCs, and Draft Circular on Credit/Investment Concentration Norms – Government-owned NBFCs

Draft Framework for Recognising Self-Regulatory Organisations for the FinTech Sector

The Reserve Bank of India (RBI) has presented the "Draft Framework for Recognising Self-Regulatory Organisations for the FinTech Sector". FinTechs are significantly reshaping the financial services landscape by streamlining processes, improving accessibility, and reducing costs. Achieving a healthy balance between facilitating innovation by the industry on the one hand, and meeting regulatory priorities in a manner that protects consumers and contains risk, on the other, is crucial to optimizing the contribution of the FinTech sector.

Self-regulation within the FinTech sector could be one way of achieving this delicate balance. By pivoting towards a culture of self-governance, FinTechs could proactively set and adhere to industry standards and best practices. This approach could empower the sector to demonstrate its commitment to responsible conduct and innovation even in the absence of formal regulation. Self-regulation also offers the advantage of adaptability to rapid technological advancements and evolving market dynamics.

Self-regulation requires a well-defined structure based on consensus and cooperation among the entities. The RBI has presented such a structure in the form of a Self-Regulatory Organisation (SRO). While formal recognition is not a necessary condition, a FinTech SRO that has formal recognition from the regulator will acquire legitimacy and provide regulatory comfort.

To read the complete note, please click the link below
https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/SROFORFINTECHSECTOR406D5896D2B54FAF8C2EE7981E7EE780.PDF

Draft circular on Review of regulatory framework for HFCs and harmonization of regulations applicable to HFCs and NBFCs

The Reserve Bank of India (RBI) has presented the "Draft circular on Review of the regulatory framework for HFCs and harmonization of regulations applicable to HFCs and NBFCs". Housing Finance Companies (HFCs) accepting public deposits are subject to more relaxed prudential parameters on deposit acceptance as compared to (Non-Banking Finance companies (NBFCs). Since the regulatory concerns associated with deposit acceptance are the same across all categories of NBFCs, it has been decided to move HFCs towards the regulatory regime on deposit acceptance as applicable to deposit-taking NBFCs and specify uniform prudential parameters as prescribed under "Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016." Accordingly, the revised regulations would apply to HFCs accepting or holding public deposits.

In terms of Section 29B of the NHB Act, 1987, deposit-taking HFCs are required to maintain 13 percent of liquid assets against public deposits held by them. In the exercise of powers conferred under Section 29B of NHB Act, 1987, it has now been decided that all deposit-taking HFCs shall maintain, on an ongoing basis, liquid assets to the extent of 15 percent of the public deposits held by them, in a phased manner.

It has been decided that HFCs shall also be allowed to hedge the risks arising out of their operations like in the case of NBFCs. Further, HFCs shall be allowed to diversify their activities into certain fee-based activities without risk participation like in the case of NBFCs, duly ensuring compliance to statutory provisions/ regulations prescribed for such activities.

The document can be accessed by clicking on the following link
https://rbidocs.rbi.org.in/rdocs/Content/PDFs/DRAFTCIRCULARHFCSCDE781CE1A854DFEA533F0BF1A803B14.PDF

Draft Circular on "Credit/Investment Concentration Norms – Government-owned NBFCs"

The Reserve Bank of India (RBI) has presented the "Draft Circular on Credit/Investment Concentration Norms – Government-owned NBFCs". As per the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, Government owned Non-Banking Financial Company (NBFCs) set up to serve specific sectors are permitted to approach the Reserve Bank for exemptions, if any, from credit/investment concentration norms.

A review of the exposure norms for these NBFCs has been carried out and it has been decided to withdraw the case-by-case basis exemptions granted to Government NBFCs, as substantial time has elapsed since Government owned NBFCs were brought within the ambit of prudential regulations in May 2018. Henceforth, the Government NBFCs shall be guided by the exposure norms and limits contained in the following circulars as applicable to them, Paragraphs 91.1 to 91.6 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 as amended from time to time; Master Direction - Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 as amended from time to time; Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs; and Credit/Investment Concentration Norms – Credit Risk Transfer.

To read the complete note, please click the link below
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=57130

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Warm Regards,

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