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RESERVE BANK OF INDIA

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**Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms
on Capital Adequacy) Directions, 2025**

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In exercise of the powers conferred under Sections 45L of the Reserve Bank of India Act, 1934 and Section 3 read with Section 31A and Section 6 of the Factoring Regulation Act, 2011, the Reserve Bank, being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter I

Preliminary

A Short title and commencement

1. These Directions shall be called the Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

B Applicability

3. These Directions shall be applicable to the following Non-Banking Financial Companies (hereinafter collectively referred to as 'NBFCs' and individually as an 'NBFC'), subject to layer-wise applicability, unless specified otherwise:

(i) Deposit taking NBFC (NBFC - D) registered with the RBI under the provisions of the RBI Act, 1934;

(ii) NBFC - Investment and Credit Company (NBFC – ICC) registered with the RBI under the provisions of the RBI Act, 1934;

(iii) NBFC - Factor registered with the RBI under the provisions of the Factoring Regulation Act, 2011;

(iv) NBFC - Infrastructure Finance Company (NBFC – IFC) registered with the RBI under the provisions of the RBI Act, 1934;

(v) Infrastructure Debt Fund - NBFC (IDF-NBFC) registered with the RBI under the provisions of the RBI Act, 1934; and

(vi) NBFC - Micro Finance Institution (NBFC - MFI) registered with the RBI under the provisions of the RBI Act, 1934.

Provided that paragraphs 6(1), 6(2), and 17 shall not apply to an NBFC-MFI.

(2) The provisions contained in paragraphs 6(4), 7, 8, 11, 15, 16, 18(2)(iv), 18(3) to 18(11), and paragraphs 19 to 54, shall apply to a Housing Finance Company



(HFC) registered with the RBI under the provisions of the National Housing Bank Act, 1987, as per layer-wise applicability.

(3) The provisions contained in paragraphs 6(4), 7, 8, 11, 15, 16, and 54 shall apply to Mortgage Guarantee Company (MGC) registered with RBI under the Scheme of Registration of Mortgage Guarantee Companies, as per layer-wise applicability.

(4) The provisions contained in paragraph 15, 16, and 54 shall apply to Core Investment Company (CIC) registered with the RBI under the provisions of the RBI Act, 1934, as per layer-wise applicability.

(5) The provisions contained in paragraph 16, and 54 shall apply to every Standalone Primary Dealer (SPD) registered with the RBI as an NBFC under the provisions of the RBI Act, 1934.

(6) These Directions are not applicable to the following:

(i) NBFC - Peer to Peer Lending Platform (NBFC - P2P), registered with the RBI under the provisions of the RBI Act, 1934;

(ii) NBFC - Account Aggregator (NBFC - AA) registered with the RBI under the provisions of the RBI Act, 1934;

(iii) Non - Operative Financial Holding Company (NOFHC) registered with the RBI as NBFC under the provisions of the RBI Act, 1934;

(iv) 'NBFC not availing public funds and not having any customer interface'; and

(v) 'NBFC - Base Layer (NBFC – BL) having customer interface but not availing public funds'.

Note - The applicability under these Directions is in line with the regulatory structure for NBFCs as set out in [Reserve Bank of India \(Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation\) Directions, 2025](#).

C Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:



- (1) 'Central Counterparty (CCP)' is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement. For the purposes of the capital framework, a CCP is a financial institution;
- (2) 'Companies in the same group', shall mean an arrangement involving two or more entities related to each other through any of the following relationships: subsidiary - parent, joint venture, associate, promoter - promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party, common brand name, and investment in equity shares of 20 percent and above. The terms parent, subsidiary, joint venture, associate, and related party shall be as defined / described in applicable Accounting Standards;
- (3) 'Credit event payment' is the amount which is payable by the credit protection seller to the credit protection buyer, under the terms of the credit derivative contract, following the occurrence of a credit event. The payment shall be only in the form of physical settlement (payment of par in exchange for physical delivery of a deliverable obligation);
- (4) 'Current exposure', in context of bilateral netting, is the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is also called Replacement Cost (RC);
- (5) 'Deliverable asset/ obligation' means any obligation of the reference entity which shall be delivered, under the terms of the contract, if a credit event occurs. (Assets under this clause will rank at least pari-passu or junior to the underlying obligation);
- (6) 'Hybrid Debt' means a capital instrument which possesses certain characteristics of equity as well as of debt;
- (7) 'Leverage Ratio' means the total outside liabilities divided by owned fund;



- (8) 'NBFC primarily engaged in lending against gold jewellery' means an NBFC in which such loans comprise 50 percent or more of its financial assets;
- (9) 'Netting Set' is a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised for regulatory capital purposes. Each transaction that is not subject to a legally enforceable bilateral netting arrangement that is recognised for regulatory capital purposes shall be interpreted as its own netting set for the purpose of these rules;
- (10) 'Qualifying Central Counterparty (QCCP)' is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption) and is permitted by the appropriate regulator / overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator / overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures;
- (11) 'Reference obligation' means the obligation used to calculate the amount payable when a credit event occurs under the terms of a credit derivative contract. [A reference obligation is relevant for obligations that are to be cash settled (on a par-less-recovery basis)];
- (12) 'Subordinated Debt' means an instrument, which is fully paid up, unsecured, subordinated to the claims of other creditors, free from restrictive clauses, and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the NBFC;
- (13) 'Tranche' means a contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in another segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.

Explanation - Securitisation notes issued by the SPE and credit enhancement facilities available shall be treated as tranches;



- (14) 'Tranche maturity' means the tranche's effective maturity in years and is measured as prescribed in paragraphs 38 to 40;
- (15) 'Tranche thickness' means the measure calculated as detachment point (D) minus attachment point (A), where D and A are calculated in accordance with paragraphs 33 to 37; and
- (16) 'Underlying asset/obligation' means the asset which a protection buyer is seeking to hedge.

The terms appearing in paragraphs 19 to 51 on 'Securitisation Exposures' shall bear the meanings assigned to them under [Reserve Bank of India \(Non-Banking Financial Companies – Securitisation Transactions\) Directions, 2025](#), unless stated otherwise herein.

- 5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934 or Companies Act, 2013 and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.



Chapter II

Regulatory capital

A Limits and minima

6. An NBFC shall meet the following minimum capital requirements on an ongoing basis:

- (1) An NBFC primarily engaged in lending against gold jewellery shall maintain a minimum Tier 1 capital and Capital to Risk-weighted Asset Ratio (CRAR) of 12 per cent and 15 per cent respectively of the aggregate Risk Weighted Assets (RWAs). The Tier 2 capital of the NBFC, at any point of time, shall not exceed 100 per cent of Tier 1 capital.

Explanation -

$$\text{CRAR} = \frac{\text{Tier 1 capital} + \text{Tier 2 capital}}{\text{RWAs}}$$

- (2) An NBFC - Middle Layer (NBFC – ML) and above shall maintain a minimum Tier 1 capital of 10 per cent of the aggregate RWAs.

Explanation - For paragraph 6(1) and 6(2) above:

$$\text{Tier 1 Capital Ratio} = \frac{\text{Tier 1 capital}}{\text{RWAs}}$$

- (3) An NBFC – ML and above shall maintain a minimum CRAR of 15 per cent of the aggregate RWAs. The Tier 2 capital of the NBFC, at any point of time, shall not exceed 100 per cent of Tier 1 capital.

- (4) An NBFC – Upper Layer (NBFC – UL) shall also maintain a minimum Common Equity Tier 1 (CET1) capital of 9 per cent of the aggregate RWAs.

Explanation -

$$\text{CET1 capital Ratio} = \frac{\text{CET1 capital}}{\text{RWAs}}$$

- (5) An NBFC falling in the Top Layer of the regulatory structure shall, *inter alia*, be subject to higher capital charge. Such higher requirements shall be specifically communicated to the NBFC at the time of its classification in the Top Layer.



B Elements of Common Equity Tier 1 (CET1) capital

7. CET1 capital shall comprise the following:

- (i) Paid-up equity share capital issued by the NBFC;
- (ii) Share premium resulting from the issue of equity shares;
- (iii) Capital reserves representing surplus arising out of sale proceeds of assets;
- (iv) Statutory reserves;
- (v) Revaluation Reserves arising out of change in the carrying amount of an NBFC's property consequent upon its revaluation in accordance with the applicable Accounting Standards may, at the discretion of the NBFC, be reckoned as CET1 capital (instead of as Tier 2 capital) at a discount of 55 per cent under extant regulations, subject to meeting the following conditions:
 - (a) the property is held for own use by the NBFC;
 - (b) the NBFC is able to sell the property readily at its own will and there is no legal impediment in selling the property;
 - (c) the revaluation reserves are presented / disclosed separately in the financial statements of the NBFC;
 - (d) revaluations are realistic, in accordance with applicable Accounting Standards;
 - (e) valuations are obtained from two independent valuers at least once in every three years;
 - (f) where the value of the property has been substantially impaired by any event, it shall be immediately revalued and appropriately factored into capital adequacy computations; and
 - (g) the external auditors of the NBFC have not expressed a qualified opinion on the revaluation of the property;
- (vi) Other disclosed free reserves, if any;



- (vii) Balance in Statement of Profit and Loss Account after allocations and appropriations i.e., retained earnings at the end of the previous financial year. Accumulated losses shall be reduced from CET1;
- (viii) Profits in current financial year may be included on a quarterly basis if it has been audited or subject to limited review by the statutory auditors of the NBFC. Further, such profits shall be reduced by average dividend paid in the last three years and the amount which can be reckoned would be arrived at as under:

$$EP_t = NP_t - 0.25 * D * t$$

Where:

EP_t = Eligible profit up to quarter 't' of the current financial year, t varies from 1 to 4;

NP_t = Net profit up to quarter 't';

D = average dividend paid during the last three years.

Losses in the current year shall be fully deducted from CET1; and

- (ix) Less: Regulatory adjustments / deductions applied in the calculation of CET1 capital [i.e., to be deducted from the sum of items (i) to (viii)] as per paragraph 8 below.
8. The following regulatory adjustments / deductions shall be made from CET1 capital:
- (1) Goodwill and other intangible assets
 - (i) Goodwill and all other intangible assets shall be deducted from CET1 capital.
 - (ii) The full amount of the intangible assets may be deducted net of any associated deferred tax liabilities (DTL) which would be extinguished if the intangible assets become impaired or derecognised under the relevant Accounting Standards. For this purpose, the definition of intangible assets shall be in accordance with the applicable Accounting Standards. Losses in the current period and those brought forward from previous periods shall also be deducted from CET1 capital, if not already deducted.



- (iii) An NBFC shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116 - Leases) from CET1 capital, provided the underlying asset being taken on lease is a tangible asset;

(2) Deferred Tax Assets (DTAs)

The following DTAs shall be deducted in full from CET1 capital:

- (i) DTAs associated with accumulated losses; and
- (ii) DTAs (excluding DTAs associated with accumulated losses) net of DTL.

Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to CET1 capital.

DTAs may be netted with associated DTLs only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority. The DTLs permitted to be netted against DTAs shall exclude amounts that have been netted against the deduction of goodwill, intangibles, and defined benefit pension assets;

- (3) Investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund of the NBFC.

Notes -

- (i) The lower of acquisition cost or fair value of investments / advances shall be used to arrive at the amount of deduction mentioned above; and
 - (ii) For the above deduction, margin money placed with a subsidiary or company in the same group shall be considered as deposits;
- (4) Impairment Reserve shall not be recognised in CET1 capital;
 - (5) Securitisation Transactions: An NBFC shall be guided by the provisions of paragraphs 19 to 51;
 - (6) Defined benefit pension fund assets and liabilities: Defined benefit pension fund liabilities, as included on the balance sheet, shall be fully recognised in the calculation of CET1 capital (i.e., CET1 capital cannot be increased through



derecognising these liabilities). For each defined benefit pension fund that is an asset on the balance sheet, the asset shall be deducted in the calculation of CET1 capital; and

- (7) Investments in own shares (Treasury stock): Investment in an NBFC's own shares is tantamount to repayment of capital and therefore, such investments, whether held directly or indirectly, shall be deducted from CET1 capital. This deduction shall remove the double counting of equity capital which arises from direct holdings, indirect holdings via index funds and potential future holdings as a result of contractual obligations to purchase own shares.

Note - Section 67 of the Companies Act, 2013, restricts the purchase by a company or giving loans by it for purchase of its shares.

C Elements of owned fund

9. 'Owned Fund' means aggregate of:

- (i) paid up equity capital;
- (ii) preference shares which are compulsorily convertible into equity;
- (iii) free reserves;
- (iv) balance in share premium account; and
- (v) capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset.

as reduced by:

- (vi) accumulated loss balance;
- (vii) book value of intangible assets; and
- (viii) deferred revenue expenditure, if any.

Note - An NBFC shall not be required to deduct an ROU asset (created in terms of Ind AS 116 - Leases) from owned fund, provided the underlying asset being taken on lease is a tangible asset.

D Elements of Tier 1 capital

10. Tier 1 capital of an NBFC – BL primarily engaged in lending against gold jewellery and an NBFC - ML shall comprise the following:



- (i) Owned fund as reduced by followings investments exceeding, in aggregate, 10 per cent of the owned fund:
 - (a) investment in shares of other NBFCs; and
 - (b) investment in shares, debentures, bonds, outstanding loans, and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group.
- (ii) Perpetual Debt Instruments (PDI) issued by a non-deposit taking NBFC that meets conditions specified in paragraph 12, to the extent it does not exceed 15 per cent of its aggregate Tier 1 capital as on March 31 of the previous financial year.

Note - An NBFC-BL shall not include PDI in its Tier 1 capital.

11. Tier 1 capital of an NBFC-UL shall comprise the following:

- (i) CET1 capital as defined under paragraph 7 above;
- (ii) Preference shares which are compulsorily convertible into equity; and
- (iii) PDI issued by a non-deposit taking NBFC that meets conditions specified in paragraph 12, to the extent it does not exceed 15 per cent of its aggregate Tier 1 capital as on March 31 of the previous financial year.

Terms and conditions applicable to Perpetual Debt Instrument (PDI) for being eligible for inclusion in regulatory capital

12. The PDI shall be issued as bonds or debentures by a non-deposit taking NBFC on the following terms and conditions to qualify for inclusion as Tier 1 capital or Tier 2 capital, as the case may be, for capital adequacy purposes:

(1) Currency of issue

PDIs shall be issued in Indian rupees only;

(2) Amount

The aggregate amount to be raised by issue of such instruments shall be within the overall limits of Tier 1 and Tier 2 as explained in paragraph 12(3) below. It may be raised in tranches. However, the minimum investment by single investor in each such issue / tranche shall be ₹5 lakh;



(3) Limits

PDI shall be eligible to be treated as Tier 1 capital up to 15 per cent of total Tier 1 capital as on March 31 of previous year after deduction of goodwill and other intangible assets but before the deduction of investments. The amount of PDI in excess of amount admissible as Tier 1 shall qualify as Tier 2 capital subject to provisions contained in these Directions;

(4) Maturity period

The PDI shall be perpetual;

(5) Rate of interest

The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate;

(6) Options

A non-deposit taking NBFC shall issue PDI as plain vanilla instruments only. However, it may issue PDI with a 'call option' subject to strict compliance with each of the following conditions:

- (i) the instrument has run for a minimum period of ten years from the date of issue; and
- (ii) call option shall be exercised only with the prior approval of the Reserve Bank. While considering the proposals received from such an NBFC for exercising the call option, the Reserve Bank shall, among other things, take into consideration its CRAR position both at the time of exercise of the call option and after the exercise of the call option;

(7) Step-up option

The issuing non-deposit taking NBFC may have a step-up option for increasing the rate of interest payable on PDIs. Such option can be exercised only once during the whole life of the instrument after the lapse of ten years from the date of issue. The step-up shall not be more than 100 bps in reference to interest rate advertised in terms of offer document under paragraph 12(5) above. The limits on step-up apply to the all-in cost of the debt to the issuing NBFC;

(8) Lock-in clause



- (i) PDI shall be subject to a lock-in clause in terms of which the issuing non-deposit taking NBFC shall defer the payment of interest, if:
 - (a) Its CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank; or
 - (b) The impact of such payment results in the NBFC's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.
 - (ii) However, a non-deposit taking NBFC may pay interest with the prior approval of the Reserve Bank when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm.
 - (iii) The interest shall not be cumulative except in cases as in paragraph 8(i) above.
 - (iv) All instances of invocation of the lock-in clause shall be notified by the issuing NBFC to the Regional Office of Department of Supervision of the Reserve Bank in whose jurisdiction it is registered;
- (9) Seniority of claim
- The claims of the investors in PDI shall be:
- (i) Superior to the claims of investors in equity shares; and
 - (ii) Subordinated to the claims of all other creditors;
- (10) Discount
- The PDI instruments shall not be subject to a progressive discount for capital adequacy purposes since these are perpetual;
- (11) Other conditions
- (i) PDI shall be fully paid-up, unsecured, free of any restrictive clauses, and the issue of PDI and the terms and conditions applicable thereto shall be compliant with the provisions of Companies Act, 2013, and all other laws for the time being in force including the rules, regulations, directions, and guidelines issued by the applicable regulatory authorities.



- (ii) Subject to compliance with the extant Foreign Exchange Management Act (FEMA), 1999, an NBFC shall obtain prior approval of the Reserve Bank, on a case-by-case basis, for investment by Foreign Institutional Investors (FIIs) in PDI to be raised by a non-deposit taking NBFC in Indian rupees.
- (iii) Non-deposit taking NBFC issuing PDI, shall comply with the terms and conditions, if any, stipulated by the Securities and Exchange Board of India (SEBI) / other regulatory authorities in regard to issue of the instruments;

(12) Reporting requirements

A non-deposit taking NBFC issuing PDI shall submit a report to the Regional Office of Department of Supervision of the Reserve Bank under whose jurisdiction it is registered giving details of the debt raised, including the terms of issue together with a copy of the offer document soon after the issue is completed;

(13) Investment in PDI issued by other NBFC

An NBFC investing in PDI issued by other NBFC and financial institutions shall be subject to the definition of NOF as defined in Section 45-IA of the RBI Act, 1934 and shall attract risk weight as prescribed by the Reserve Bank;

(14) Grant of advances against PDI

A non-deposit taking NBFC issuing PDI shall not grant advances against the security of its PDI;

(15) Disclosure requirement

- (i) A non-deposit taking NBFC issuing PDI shall make suitable disclosures in its Annual Report about:
 - (a) Amount of funds raised through PDI during the year and outstanding at the close of the financial year;
 - (b) Percentage of the amount of PDI of the amount of its Tier 1 capital; and
 - (c) Mention the financial year in which interest on PDI has not been paid in accordance with paragraph 12(8) above.



- (ii) While framing policy as regards PDI, the Board of Directors of the non-deposit taking NBFC shall ensure that sufficient disclosures are made to the investor which clarify the type of the instrument, the risks associated, and its uninsured nature so as to enable the investor to make informed investment decision. The offer document shall contain a clause that investors shall make investment decision on the basis of their own analysis and the Reserve Bank does not accept any responsibility about repayment of such investment. The policy evolved by such NBFC shall also include provision as regards factors to be taken into account by it to demonstrate that it can meet extra load in case the company decides to step up the rate of interest under paragraph 12(7) above. The Board of Directors shall ensure strict compliance with all the terms and conditions set forth above.

E Elements of Tier 2 capital

13. Tier 2 capital of an NBFC shall comprise the following:

- (i) Preference shares other than those which are compulsorily convertible into equity;
- (ii) Revaluation Reserves at a discounted rate of 55 per cent;
- (iii) General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of 1.25 per cent of RWAs;
- (iv) Hybrid debt capital instruments;
- (v) Subordinated debt;

Provided that book value of subordinated debt shall be subject to discounting as provided under:

Remaining Maturity of the instruments	Rate of discount
Up to one year	100%
More than one year but up to two years	80%
More than two years but up to three years	60%
More than three years but up to four years	40%
More than four years but up to five years	20%



to the extent such discounted value does not exceed fifty percent of Tier 1 capital; and

- (vi) PDI issued by a non-deposit taking NBFC, which is in excess of what qualifies for Tier 1 capital;

Note – An NBFC-BL is not eligible to include PDI in its Tier 2 capital.

F Treatment of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL) for regulatory capital

14. The following regulatory treatment shall be provided to DTA and DTL:

- (1) DTA shall be treated as an intangible asset by an NBFC;
- (2) DTA associated with accumulated losses shall be deducted from Tier 1 capital;
- (3) DTA (excluding DTA associated with accumulated losses) net of DTL shall be deducted from Tier 1 capital;
- (4) Where DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess DTL shall neither be adjusted against item (2) nor added to Tier 1 capital;
- (5) The balance of DTL account shall not be included either in Tier 1 or Tier 2 capital for capital adequacy purpose;
- (6) DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year shall be included under item 'others' of 'Other Assets'; and
- (7) DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year shall be included under 'others' of 'Other Liabilities and Provisions'.

G Other adjustments to be made from regulatory capital

15. The following adjustments shall be made from regulatory capital:

- (1) In terms of [Reserve Bank of India \(Non-Banking Financial Companies – Undertaking of Financial Services\) Directions, 2025](#), if an NBFC's contribution is in the form of subordinated units of any Alternative Investment Fund (AIF)



scheme, it shall deduct the entire investment from its capital funds – proportionately from both Tier 1 and Tier 2 capital (wherever applicable);

- (2) In terms of [Reserve Bank of India \(Non-Banking Financial Companies – Transfer and Distribution of Credit Risk\) Directions, 2025](#), an NBFC shall adhere to the applicable Accounting Standards while booking of unrealised profit under Co-lending Arrangements, if applicable. However, such profits shall be deducted from CET1 capital or Net Owned Funds for meeting regulatory capital adequacy requirement till the maturity of such loans. Further, for the prudential treatment of unrealised profits arising because of transfer of loan exposures and Security Receipts guaranteed by the Government of India, an NBFC shall be guided by the Directions *ibid*; and
 - (3) In terms of [Reserve Bank of India \(Non-Banking Financial Companies – Credit Facilities\) Directions, 2025](#), if an NBFC is the Default Loss Guarantee (DLG) provider, it shall deduct the full amount of DLG, which is outstanding, from its capital.
16. An NBFC, covered by Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 [i.e., an NBFC that has implemented Indian Accounting Standards (Ind AS)], shall be guided by the following while determining 'owned fund', 'CET1 capital', 'Tier 1 capital', and 'regulatory capital':
- (1) Any net unrealised gains arising on fair valuation of financial instruments, including such gains arising on transition to Ind AS, shall not be included in owned fund and CET1 capital whereas all such net losses shall be considered. In determining the net unrealised gains for reduction from owned fund and CET1 capital, the NBFC shall categorise financial assets measured at fair value into following two categories:
 - (i) Investments in shares of other NBFCs and in shares, debentures, bonds, etc., in Group companies that are required to be reduced while determining CET1 / Tier 1 capital as defined in paragraphs 8 and 10 of these Directions; and



(ii) Others.

While netting may be done within the aforementioned categories, net gains from one category shall not offset against losses in the other category. Unrealised gains / losses shall be considered net of the effect of taxation;

- (2) As unrealised gains on category (i) in proviso to paragraph 16(1) above have been excluded in computation of owned fund, an NBFC shall reduce the lower of acquisition cost or fair value of investments / advances in subsidiaries / other group companies and other NBFCs while determining Tier 1 capital. Further, net unrealised gains on category (ii) in proviso to paragraph 16(1) above (i.e., 'Others'), to the extent they have been excluded in regulatory capital, shall also be reduced from RWAs;
- (3) Any unrealised gains or losses recognised in equity due to (i) own credit risk, and (ii) cash flow hedge reserve shall be derecognised while determining owned fund and CET1 capital;
- (4) The unrealised gain / loss on a derivative transaction undertaken for hedging may be offset against the unrealised loss / gain recognised in the capital (either through Profit or Loss or through Other Comprehensive Income) on the corresponding underlying hedged instrument. If after such offset and netting with unrealised gains / losses on other financial instruments, there are still net unrealised gains, the same shall be excluded from regulatory capital. These unrealised gains / losses shall be considered net of the effect of taxation;
- (5) Where an NBFC uses fair value as deemed cost at the date of transition with respect to Property, Plant and Equipment (PPE) in terms of Ind AS 101, and the difference between the deemed cost and the current carrying cost is adjusted directly in retained earnings, any fair value gains upon such transition shall be reckoned as Tier 2 capital for an NBFC at a discount of 55 per cent;
- (6) 12 month expected credit loss (ECL) allowances for financial instruments, i.e., where the credit risk has not increased significantly since initial recognition, shall be included under general provisions and loss reserves in Tier 2 capital within the limits specified by extant regulations. Lifetime ECL shall not be reckoned for regulatory capital (numerator) while it shall be reduced from the RWAs;



- (7) Securitised assets not qualifying for de-recognition under Ind AS due to credit enhancement given by an originating NBFC on such assets shall be risk weighted at zero per cent. However, the NBFC shall reduce 50 per cent of the amount of credit enhancement given from Tier 1 capital and the balance from Tier 2 capital; and
- (8) The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital.

H Leverage Ratio

- 17. The leverage ratio of an NBFC - BL shall not be more than seven at any point of time.



Chapter III

Risk Weight Assets (RWAs)

A Risk Weight Assets (RWAs)

18. An NBFC shall follow following guidelines for computation of RWAs.

- (1) Risk-weights, representing degree of credit risk, to be applied to on balance sheet items are as provided in the table below. The value of each on balance sheet asset / item shall be multiplied with applicable risk weights to arrive at risk-adjusted value of on balance sheet assets / items. The aggregate of risk-adjusted value of on balance sheet assets shall be taken into account for reckoning the minimum capital ratio.

Sr. No.	On-balance sheet items	Percentage weight
(1)	Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(2)	Investments	
	(a) Approved securities [Except at (c) below]	0
	(b) Bonds of public sector banks	20
	(c) Fixed deposits / certificates of deposits / bonds of public financial institutions	100
	(d) Shares of all companies and debentures / bonds / commercial papers of all companies and units of all mutual fund	100
	(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation.	50
(3)	Current assets / Other financial assets	
	(a) Stock on hire (net book value)	100
	(b) Inter corporate loans / deposits	100
	(c) Loans and advances fully secured against deposits held	0
	(d) Loans to staff	0
	(e) Other secured loans and advances considered good [Except at (6) below]	100
	(e)(i) Consumer credit exposure categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance / SHG loans	125
	(e)(ii) Credit card receivables	125
	(f) Bills purchased / discounted	100
	(g) Others (To be specified)	100



Sr. No.		On-balance sheet items	Percentage weight
(4)		Fixed assets (net of depreciation)	
	(a)	Assets leased out (net book value)	100
	(b)	Premises	100
	(c)	Furniture and fixtures	100
(5)		Other assets	
	(a)	Income tax deducted at source (net of provision)	0
	(b)	Advance tax paid (net of provision)	0
	(c)	Interest due on Government securities	0
	(d)	Others (to be specified) (including ROU assets)	100
(6)		Domestic sovereign	
	(a)	Fund-based claims on the Central Government	0
	(b)	Direct loan / credit / overdraft exposure and investment in State Government securities	0
	(c)	Central Government guaranteed claims	0
	(d)	State Government guaranteed claims, which have not remained in default / which are in default for a period not more than 90 days	20
	(e)	State Government guaranteed claims, which have remained in default for a period of more than 90 days	100

(2) While calculating risk-weighted value of on-balance sheet items following shall also be considered:

- (i) Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
- (ii) An asset that has been deducted, from owned fund shall have a risk-weight of 'zero' percentage.
- (iii) While calculating the aggregate of funded exposure of a borrower for the purpose of assignment of risk weight, an NBFC shall net off the amount of cash margin / caution money / security deposits (against which right to set-off is available) held as collateral against the advances out of the total outstanding exposure of the borrower.
- (iv) An NBFC may apply zero per cent risk weights in respect of exposures guaranteed under any existing or future schemes launched by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit



Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH), and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) provided they satisfy the following conditions:

- (a) Prudential Aspects: The guarantees provided under the respective schemes shall comply with the requirements for credit risk mitigation, as applicable for scheduled commercial banks in terms of paragraphs 167 to 176 of the [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#), which, inter alia, requires such guarantees to be direct, explicit, irrevocable and unconditional.
- (b) Restrictions on permissible claims: Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by member lending institutions (MLI), payout cap, etc., the zero percent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.
- (c) In case of a portfolio-level guarantee, effective from April 1, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.
- (d) Further, subject to the aforementioned prescriptions at paragraph 18 (2)(iv), any future scheme launched under any of the aforementioned trust funds, in order to be eligible for zero percent risk weight, shall provide for settlement of the eligible guaranteed claims within thirty days from the date of lodgement, and the lodgement shall be permitted within sixty days from the date of default.
- (e) Illustrative examples of risk weights applicable on claims guaranteed under specific existing schemes are as under.



Scheme name	Guarantee cover	Risk weight (RW)
1. Credit Guarantee Fund Scheme for Factoring (CGFSF)	The first loss of 10% of the amount in default to be borne by Factors. The remaining 90% (i.e., second loss) of the amount in default will be borne by NCGTC and Factors in the ratio of 2:1 respectively.	<ul style="list-style-type: none"> First loss of 10% amount in default – Full capital deduction 60% amount in default borne by NCGTC- 0% RW. Balance 30% amount in default <u>Counterparty / Regulatory Retail Portfolio (RRP) RW as applicable.</u> <p>Note - The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>
2. Credit Guarantee Fund Scheme for Skill Development (CGFSD)	75% of the amount in default. 100% of the guaranteed claims shall be paid by the Trust after all avenues for recovery have been exhausted and there is no scope for recovering the default amount.	<ul style="list-style-type: none"> Entire amount in default - <u>Counterparty / Regulatory Retail Portfolio (RRP) RW as applicable.</u>
3. Credit Guarantee Fund for Micro Units (CGFMU)	<p><u>Micro Loans</u></p> <p>The first loss to the extent of 3% of amount in default.</p> <p>Out of the balance, guarantee will be to a maximum extent of 75% of the amount in default in the crystallized portfolio</p>	<ul style="list-style-type: none"> First loss of 3% amount in default – Full capital deduction 72.75% of the amount in default - 0% RW, subject to maximum of $(\{15\% * CP\} - C) * \left[\frac{SLA}{CP} \right]$ <p>Where-</p> <ul style="list-style-type: none"> CP = Crystallized Portfolio (sanctioned amount) C = Claims received in previous years, if any, in the crystallized portfolio SLA = Sanctioned limit of each account in the crystallized portfolio 15 per cent represents the payout cap Balance amount in default - <u>Counterparty / RRP RW as applicable.</u> <p>Note - The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>



Scheme name	Guarantee cover	Risk weight (RW)
4.CGTMSE guarantee coverage for Micro-Enterprises	<u>up to ₹5 lakh</u> 85% of the amount in default subject to a maximum of ₹4.25 lakh <u>Above ₹5 lakh and up to ₹50 lakh</u> 75% of the amount in default subject to a maximum of ₹37.50 lakh <u>Above ₹50 lakh & up to ₹200 lakh</u> 75% of the amount in default subject to a maximum of ₹150 lakh	<ul style="list-style-type: none"> Guaranteed amount in default – <u>0% RW*</u> Balance amount in default - <u>Counterparty / RRP RW as applicable.</u>
*In terms of the payout cap stipulations of CGTMSE, claims of the member lending institutions will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. However, since the balance claims will be settled in subsequent year / s as the position is remedied, the entire extent of guaranteed portion may be assigned zero percent risk weight.		

Note -

- (i) The above regulatory stipulation shall be applicable to a NBFC, to the extent it is recognised as eligible MLIs under the respective schemes.
- (ii) Guarantee coverage, first loss percentage and payout cap ratio may be factored in as given above and as amended from time to time in the respective schemes.

Treatment to off-balance sheet items for capital ratio

- (3) The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure shall be calculated as under:
 - (i) The notional amount of an off-balance sheet transaction shall be converted into a credit equivalent amount, by multiplying the notional amount with the specified CCF or by applying the current exposure method;
 - (ii) The resulting credit equivalent amount shall be multiplied by the applicable risk weight, viz., zero per cent for exposure to Central Government / State Governments, 20 per cent for exposure to banks and 100 per cent for others; and
 - (iii) The total risk weighted off-balance sheet credit exposure shall be the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items.

Non-market-related off-balance sheet items



- (4) The credit equivalent amount in relation to a non-market related off-balance sheet item shall be determined by multiplying the contracted amount of that particular transaction by the relevant CCF.

Sr. No.	Instruments	CCF
(1)	Financial and other guarantees	100
(2)	Share / debenture underwriting obligations	50
(3)	Partly paid shares / debentures	100
(4)	Bills discounted / rediscounted	100
(5)	Lease contracts entered into but yet to be executed	100
(6)	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the NBFC	100
(7)	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down	100
(8)	Lending of NBFC securities or posting of securities as collateral by the NBFC, including instances where these arise out of repo style transactions	100
(9)	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of	
	up to one year	20
	over one year	50
(10)	Similar commitments that are unconditionally cancellable at any time by the NBFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	0
(11)	Take-out Finance in the books of taking-over institution	
	(a) Unconditional take-out finance	100
	(b) Conditional take-out finance	50
Note - As the counter party exposure shall determine the risk weight, it shall be 100 per cent in respect of all borrowers or zero per cent if covered by Government guarantee.		
(12)	Commitment to provide liquidity facility for securitisation of standard asset transactions	100
(13)	Second loss credit enhancement for securitisation of standard asset transactions provided by the third party	100
(14)	Other contingent liabilities (To be specified)	50

- (5) While calculating risk-weighted value of non-market related off-balance sheet items following shall also be considered.

- Cash margins / deposits shall be deducted before applying the CCF.
- Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment



to be included in calculating the off-balance sheet non-market related credit exposures shall be the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms the part of an NBFC's on-balance sheet credit exposure.

- (6) Partial Credit Enhancement (PCE) facilities to the extent drawn should be treated as an advance in the balance sheet. Undrawn facilities would be an off-balance sheet item and reported under 'Contingent Liability – Others'.
- (i) The capital required to be maintained by the NBFC providing PCE for a given bond issue shall be based on the PCE amount, and the applicable risk weight in terms of these Directions.
 - (ii) The rating of the bond shall be monitored regularly, and capital requirement adjusted in the following manner:
 - (a) As long as the bond outstanding amount exceeds the aggregate PCE (drawn and contingent non-funded) offered, the capital held shall not be less than the amount required to be held at the time of issuance of the PCE enhanced bond. However, once the bond outstanding has amortised below the aggregate PCE amount, the capital can be computed taking into account the outstanding bond amount.
 - (b) In situations where the pre-enhanced rating of the bond slips below investment grade (BBB minus), full capital to the extent of PCE provided shall be maintained.
 - (c) In all circumstances, the capital computed for PCE as mentioned above and required to be maintained by the PCE provider, shall be capped by the total amount of PCE provided.

Market related off-balance sheet items

- (7) While calculating risk-weighted value of market related off-balance sheet items, the following shall be considered.
- (i) An NBFC shall take into account all market related off-balance sheet items [OTC derivatives and securities financing transactions (such as repo /



reverse repo, etc.)) while calculating the risk weighted off-balance sheet credit exposures.

- (ii) The credit risk on market related off-balance sheet items is the cost to an NBFC of replacing the cash flow specified by the contract in the event of counterparty default. This shall depend, among other things, upon the maturity of the contract and on volatility of rates underlying the type of instrument.
- (iii) Market related off-balance sheet items shall include:
 - (a) Interest rate contracts – including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;
 - (b) Foreign exchange contracts, including contracts involving gold - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;
 - (c) Credit Default Swaps; and
 - (d) Any other market related contracts specifically allowed by the Reserve Bank which give rise to credit risk.
- (iv) Exemption from capital requirements is permitted for instruments traded on futures and options exchanges that are subject to daily mark-to-market and margin payments.
- (v) The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions outstanding against them shall be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures.
- (vi) A CCF of 100 per cent shall be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure shall be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent and for other CCPs, the risk weight shall be 50 per cent.



- (vii) The total credit exposure to a counter party in respect of derivative transactions shall be calculated according to the CEM as explained in paragraph 18(8) below.

Current Exposure Method (CEM) (used for measuring capital charge for default risk)

- (8) Total credit exposure to a counterparty in respect of derivative transaction using CEM shall be as under.

- (i) The credit equivalent amount of a market related off-balance sheet transaction calculated using the CEM shall be the sum of (i) current exposure, and (ii) potential future exposure (PFE) of the contract.
- (ii) Current exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty shall not be netted). The CEM requires periodical calculation of the current credit exposure by marking these contracts to market value.

Note - In case of bilateral netting arrangement, refer to the definition as specified in sub-paragraph 4(3) above.

- (iii) PFE is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

PFE Add-on for interest rate related, exchange rate related and gold related derivatives		
	Add-on factors (%)	
	Interest Rate Contracts	Exchange Rate Contracts and Gold
One year or less	0.50	2.00
Over one year to five years	1.00	10.00
Over five years	3.00	15.00

- (iv) While calculating PFE, the following shall also be considered:
- (a) For a contract with multiple exchanges of principal, the add-on factors shall be multiplied by the number of remaining payments in the contract.



- (b) For a contract that is structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity shall be set equal to the time until the next reset date. However, in the case of an interest rate contracts which have residual maturities of more than one year and meet the above criteria, the add-on factor shall be subject to a floor of 1.0 per cent.
- (c) No PFE shall be calculated for single currency floating / floating interest rate swaps. The credit exposure on these contracts shall be evaluated solely on the basis of their mark-to-market value.
- (d) PFE shall be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' shall be used for determining PFE. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of an NBFC shall have an effective notional amount of USD 2 million.
- (v) When an effective bilateral netting contract as specified in paragraph 18(9) is in place, current exposure, i.e., replacement cost (RC) shall be the net replacement cost; and the potential future exposure, i.e., add-on shall be A_{Net} as calculated below:
 - (a) Credit exposure on bilaterally netted forward transactions shall be calculated as the sum of the net mark-to-market RC, if positive, plus an add-on based on the notional underlying principal.
 - (b) The add-on for netted transactions (A_{Net}) shall be equal to the weighted average of the gross add-on (A_{Gross}) and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$A_{Net} = 0.4 * A_{Gross} + 0.6 * NGR * A_{Gross}$$

where:



NGR = level of net replacement cost / level of gross replacement cost for transactions subject to legally enforceable netting agreements. An NBFC shall calculate NGR on a counterparty by counterparty basis for all transactions that are subject to legally enforceable netting agreements.

A_{Gross} = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in the table in paragraph 18(8)(iii)) of all transactions subject to legally enforceable netting agreements with one counterparty.

- (c) For calculating PFE to a netting counterparty for forward foreign exchange contracts and other similar contracts in which the notional principal amount is equivalent to cash flows, the notional principal is defined as the net receipts falling due on each value date in each currency. The reason for this is that offsetting contracts in the same currency maturing on the same date will have lower PFE as well as lower current exposure.

Requirement for recognition of bilateral netting contract

- (9) An NBFC shall meet following requirement for recognition of bilateral netting contracts.
 - (i) An NBFC may net transactions subject to novation under which any obligation between such NBFC and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.
 - (ii) An NBFC may also net transactions subject to any legally valid form of bilateral netting not covered in paragraph 18(9)(i) above, including other forms of novation.
 - (iii) In both cases 8(i) and 8(ii) above, an NBFC shall need to satisfy that it has:
 - (a) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the NBFC shall have either a claim to receive or obligation to pay only



the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation, or similar circumstances.

Provided that the membership agreement together with relevant netting provisions contained in QCCP's bye-laws, rules, and regulations shall be considered as a type of netting agreement.

- (b) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities shall find such NBFC's exposure to be such a net amount under:
 - (i) The law of the jurisdiction in which the counterparty is chartered and if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located;
 - (ii) The law that governs the individual transactions;
 - (iii) The law that governs any contract or agreement necessary to effect the netting; and
 - (iv) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.
- (iv) Contracts containing walkaway clauses shall not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

Risk-weight for repo transactions in corporate debt securities

- (10) A non-deposit taking NBFC can participate in repo transactions in corporate debt securities. The credit risk-weights for assets that are the collateral for such transactions as well as risk weights for the counterparty credit risk shall be as applicable to the issuer / counterparty.



Credit conversion factors for Credit Default Swaps (CDS)

(11) An NBFC is only permitted to buy credit protection to hedge its credit risk on corporate bonds it holds. The bonds shall be held in current category (non-Ind AS NBFCs) / other than Held to Maturity (HTM) category (Ind AS NBFCs) or long-term category (non-Ind AS NBFCs) / HTM category (Ind AS NBFCs). The capital charge for these exposures shall be as under:

- (i) For corporate bonds held in current category (non-Ind AS NBFCs) / other than HTM category (Ind AS NBFCs) and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection shall be permitted to be recognised to a maximum of 80 per cent of the exposure hedged. Therefore, an NBFC shall continue to maintain capital charge for the corporate bond to the extent of 20 per cent of its capital charge. This can be achieved by taking the exposure value at 20 per cent of the market value of the bond and then multiplying that with the risk weight applicable to the issuing entity. In addition to this, the bought CDS position shall attract a capital charge for counterparty risk which shall be calculated by applying a credit conversion factor of 100 per cent and a risk weight as applicable to the protection seller, i.e., 20 per cent for banks and 100 per cent for others.
- (ii) For corporate bonds held in long term category (non-Ind AS NBFCs)/ HTM category (Ind AS NBFCs) and hedged by CDS where there is no mismatch between the CDS and the hedged bond, an NBFC can recognise full credit protection for the underlying asset and no capital shall be required to be maintained thereon. The exposure shall stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller, i.e., 20 per cent for banks and 100 per cent for others.

B Securitisation exposures

Capital requirements on securitisation exposures undertaken on or after September 24, 2021

General conditions

19. An NBFC shall maintain capital against all securitisation exposure amounts, including those arising from the provision of credit risk mitigants to a



securitisation transaction, investments in asset-backed or mortgage-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement. For capital computation, whenever securitisation exposures are a subject of repurchase agreements and repurchased by the NBFC, the exposure shall be treated as retained exposure and not a fresh exposure. An NBFC shall deduct from CET1 or NOF (in case of other regulated entities which do not have any specific requirement of CET1) any increase in equity capital resulting from a securitisation transaction, either realised at the time of sale of underlying assets to the SPE, or unrealised gains on sale of underlying assets such as that associated with expected future margin income, where recognised upfront, till the maturity of such assets.

20. For calculating exposure amount, an NBFC shall measure the exposure amount of its off-balance exposure as follows:
 - (i) for credit protections, including off-balance sheet exposures, sold or purchased by an NBFC, the treatments set out in the relevant Master Directions will apply;
 - (ii) for facilities that are not eligible credit risk mitigants, the NBFC shall use a CCF of 100 per cent; and
 - (iii) for derivatives contracts other than credit risk derivatives contracts, such as interest rate or currency swaps sold or purchased by the NBFC, to the extent not covered by paragraphs 20(i) to 20(ii) above, the measurement approach set out in the paragraph 18(8) shall apply.
21. For calculating capital requirements, an NBFC's exposure A overlaps another exposure B if in all circumstances the NBFC shall preclude any loss for the NBFC on exposure B by fulfilling its obligations with respect to exposure A. For example, if an NBFC provides full credit support to some securitisation notes and holds a portion of these securitisation notes, its full credit support obligation precludes any loss from its exposure to the securitisation notes. If an NBFC can verify that fulfilling its obligations with respect to exposure A shall preclude a loss from its exposure to B under any circumstance, the NBFC does not need to calculate risk-weighted assets for its exposure B.



22. To arrive at an overlap, an NBFC shall, for the purposes of calculating capital requirements, split or expand its exposures, i.e., splitting exposures into portions that overlap with another exposure held by the NBFC and other portions that do not overlap; and expanding exposures by assuming for capital purposes that obligations with respect to one of the overlapping exposures are larger than those established contractually. For example, a liquidity facility shall not be contractually required to cover defaulted assets in certain circumstances. For capital purposes, such a situation shall not be regarded as an overlap to the securitisation notes issued by that securitisation. However, the NBFC shall calculate RWAs for the liquidity facility as if it were expanded (either to cover defaulted assets or in terms of trigger events) to preclude all losses on the securitisation notes. In such a case, the NBFC shall only need to calculate capital requirements on the liquidity facility.
23. Overlap may also be recognised between relevant capital charges for exposures in the trading book and capital charges for exposures in the banking book, provided that the NBFC is able to calculate and compare the capital charges for the relevant exposures.
24. Liquidity facilities provided by an NBFC that satisfy the requirements of [Reserve Bank of India \(Non-Banking Financial Companies –Securitisation Transactions\) Directions, 2025](#), shall attract risk weights as per the SEC-ERBA approach prescribed in paragraphs 41 to 47 of these directions.
25. Liquidity facilities provided by an NBFC that do not satisfy the requirements of [Reserve Bank of India \(Non-Banking Financial Companies – Securitisation Transactions\) Directions, 2025](#), shall maintain capital charge equal to the actual exposure, after applying a CCF of 100 per cent for the undrawn portion.
26. All securitisation exposures, which are not covered by these directions, or which do not satisfy the conditions prescribed in these directions (including the exposures prohibited and conditions prescribed as per [Reserve Bank of India \(Non-Banking Financial Companies – Securitisation Transactions\) Directions, 2025](#) or where originator is not a lender referred to in [Reserve Bank of India \(Non-Banking Financial Companies – Securitisation Transactions\) Directions, 2025](#), or for which prudential treatment is not advised explicitly in these directions



or Reserve Bank of India (Non-Banking Financial Companies – Securitisation Transactions) Directions, 2025, a NBFC shall maintain capital charge equal to the actual exposure and shall be subjected to supervisory scrutiny and suitable action.

Derecognition of transferred assets for the purpose of capital adequacy

27. An originator shall maintain capital against the exposures transferred to a SPE, which then forms the underlying for securitisation notes issued by the SPE, i.e., the exposures transferred to a SPE shall be included in the calculation of risk-weighted assets of the originator and the consideration received from SPE shall be recognised as an advance, unless the following conditions are satisfied.

- (1) The originator does not maintain direct or indirect control over the transferred exposures. For this purpose, the originator is deemed to have maintained effective control over the transferred credit risk exposures if it: (i) is able to repurchase from the SPE the previously transferred exposures in order to realise their benefits; or (ii) is obligated, contractually or otherwise, to retain the risk of the transferred exposures.

Explanation - For this paragraph, retention of servicing rights in respect of the transferred exposures shall not constitute control by the originator over the transferred exposures.

- (2) The originator shall not be able to repurchase the transferred exposures unless it is done through invocation of a clean-up call option.

Provided that the purchase on invocation of clean-up calls is conducted at arm's length, on market terms and conditions (including price / fee) and is subject to the originator's normal credit approval and review processes.

- (3) The transferred exposures are legally isolated from the originator in such a way that the exposures are put beyond the reach of the originator or its creditors, even in bankruptcy (specially Insolvency and Bankruptcy Code, 2016) or administration.
- (4) The securitisation notes issued by the SPE are not obligations of the originator. Thus, the investors who purchase the securitisation notes have a claim only to the underlying exposures.



- (5) The holders of the securitisation notes issued by the SPE against the transferred exposures have the right to pledge or trade them without any restriction unless the restriction is imposed by a statutory or regulatory risk retention requirement.
- (6) The exercise of the clean-up calls, if any, shall not be mandatory on the originator, in form or substance and shall be at the discretion of the originator.
- (7) The clean-up call options, if any, shall not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancements.

Provided that if a clean-up call, when exercised, is found to serve as a credit enhancement (for example, to purchase delinquent underlying exposures), the exercise of the clean-up call shall be considered a form of implicit support provided by the originator.

- (8) The threshold at which clean-up calls become exercisable shall not be more than 10 per cent of the original value of the underlying exposures or securitisation notes.
- (9) The securitisation does not contain clauses that require the originator to replace or replenish the underlying exposures to improve the credit quality of the pool in the event of deterioration in the underlying credit quality, except under conditions specifically permitted in these Directions.
- (10) If the originator provides credit enhancement or first loss facility, the securitisation structure shall not allow for increase in the above positions after inception.
- (11) The securitisation does not contain clauses that increase the yield payable to parties other than the originator such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool.

Explanation –

- (i) This restriction stipulates that deterioration in the credit quality of the underlying pool shall be covered through invocation of first loss or second loss facilities, if available, and the protection available due to the seniority



of the securitisation exposures, and not by increase in payments to the investors.

- (ii) This restriction shall not apply to increase in yields to investors on account of movements in reference rates to which the underlying loans shall be benchmarked.
- (12) There shall be no termination options or triggers to the securitisation exposures except eligible clean-up call options or termination provisions for specific changes in tax and regulation (regulatory or tax call options) or early amortisation provisions.

Provided that early amortisation provisions do not subordinate the originator's senior or *pari passu* interest in the underlying to the interest of other investors, nor subordinate the originator's subordinated interest to an even greater degree relative to the interest of other parties, nor in other ways increase the exposure of the originator to the losses associated with the underlying exposures shall be treated as in violation of the provisions of this paragraph.

28. The originator shall obtain legal opinion that the transfer of exposures to a special purpose entity satisfies the above conditions if the exposures are to be excluded from the calculation of RWAs.

Approaches for computation of RWA

29. An NBFC shall apply Securitisation External Ratings Based approach (SEC-ERBA) for calculation of RWA for credit risk of securitisation exposures. For unrated securitisation exposures, an NBFC shall maintain capital charge equal to the actual exposure.
30. The capital charges computed based on the prescribed risk weights are subject to a cap of the actual exposure in respect of which capital adequacy is being computed such that the capital requirement for any securitisation position does not exceed the securitisation exposure amount.
31. However, the originator shall apply a maximum capital requirement for the securitisation exposures it holds, up to the permissible aggregate threshold, equal to the capital requirement that shall have been assessed against the entire underlying loan exposures had they not been securitised.



32. When an NBFC provides implicit support to a securitisation, it shall, at a minimum, hold capital against all the underlying exposures associated with the securitisation transaction as if they had not been securitised. Additionally, an NBFC shall not be permitted to recognise in regulatory capital any gain on sale.

Determination of attachment point (A) and detachment point (D)

33. The attachment point (A) represents the threshold at which losses within the underlying pool shall first be allocated to the relevant securitisation exposure. It shall be expressed as a decimal value between zero and one and shall be equal to the greater of zero and the ratio of the outstanding balance of the pool of underlying exposures in the securitisation minus the outstanding balance of all tranches that rank senior or *pari passu* to the tranche containing the relevant securitisation position including the exposure itself to the outstanding balance of all the underlying exposures in the securitisation.
34. The detachment point (D) represents the threshold at which losses within the underlying pool result in a total loss of principal for the tranche in which a relevant securitisation exposure resides. It shall be expressed as a decimal value between zero and one and shall be equal to the greater of zero and the ratio of the outstanding balance of the pool of underlying exposures in the securitisation minus the outstanding balance of all tranches that rank senior to the tranche containing the relevant securitisation position to the outstanding balance of all the underlying exposures in the securitisation.
35. For the calculation of A and D, over-collateralisation and funded reserve accounts shall be recognised as tranches; and the assets forming these reserve accounts shall be recognised as underlying assets. Only the loss-absorbing part of the funded reserve accounts that provide credit enhancement shall be recognised as tranches and underlying assets.
36. Unfunded reserve accounts, such as those to be funded from future receipts from the underlying exposures (e.g., unrealised excess spread) and assets that do not provide credit enhancement related to these instruments shall not be included in the above calculation of A and D.



37. An NBFC shall take into consideration the economic substance of the transaction rather than the form and apply these definitions conservatively in the light of the structure.

Determination of tranche maturity

38. For risk-based capital purposes, tranche maturity (M_T) shall be measured at the NBFC's discretion in either of the following manners.

- (i) As the rupee weighted-average maturity of the contractual cash flows of the tranche, as expressed below, where CF_t denotes the cash flows (principal, interest payments and fees) contractually payable by the borrower in period t . The contractual payments shall be unconditional and shall not be dependent on the actual performance of the securitised assets. If such unconditional contractual payment dates are not available, the final legal maturity shall be used.

$$M_T = \frac{\sum_t tCF_t}{\sum_t CF_t}$$

- (ii) On the basis of final legal maturity of the tranche, where M_L is the final legal maturity of the tranche. (M_T and M_L are in years)

$$M_T = 1 + 0.8(M_L - 1)$$

In all cases, M_T shall have a floor of one year and a cap of five years. The cap of five years is only for the capital computation purposes and is not applicable for the actual permissible maturity for tranches.

39. When determining the maturity of a securitisation exposure, an NBFC shall take into account the maximum period of time they are exposed to potential losses from the securitised assets. In cases where an NBFC provides a commitment, the NBFC shall calculate the maturity of the securitisation exposure resulting from this commitment as the sum of the contractual maturity of the commitment and the longest maturity of the asset(s) to which the NBFC shall be exposed after a draw has occurred.
40. For credit protection instruments that are only exposed to losses that occur up to the maturity of that instrument, an NBFC shall be allowed to apply the contractual



maturity of the instrument and shall not have to look through to the protected position.

Securitisation – External Ratings Based Approach (SEC-ERBA)

41. For securitisation exposures that are externally rated, RWAs under the SEC-ERBA shall be determined by multiplying securitisation exposure amounts by the appropriate risk weights as determined by paragraphs 42 to 44 as mentioned in these Directions below, provided that the following operational criteria are met:
- (i) To be eligible for risk-weighting purposes, the external credit assessment shall take into account and reflect the entire amount of credit risk exposure the NBFC has with regard to all payments owed to it. For example, if a NBFC is owed both principal and interest, the assessment shall fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.
 - (ii) The external credit assessments shall be from an eligible external credit rating agency (CRA) as provided in paragraphs 131 to 153 of [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#). A rating shall be published in a publicly accessible form and included in the CRA's transition matrix. Also, loss and cash flow analysis as well as sensitivity of ratings to changes in the underlying rating assumptions shall be publicly available. Consequently, ratings that are made available only to the parties to a transaction do not satisfy this requirement. Further, the external credit assessment provided by the eligible CRAs shall not be more than six months old.
 - (iii) Eligible CRAs shall have a demonstrated expertise in assessing securitisations, which shall be evidenced by strong market acceptance.
 - (iv) Furthermore, an NBFC shall not use the credit assessments issued by one external CRA for one or more tranches and those of another external CRA for other positions (whether retained or purchased) within the same securitisation structure that may or may not be rated by the first external credit rating agency. Where two or more eligible CRAs shall be used and these assess the credit risk of the same securitisation exposure differently,



paragraph 151 of [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#) shall apply.

- (v) Where CRM is provided to specific underlying exposures or the entire pool by an eligible guarantor as defined in paragraph 171 of [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#) and is reflected in the external credit assessment assigned to a securitisation exposure(s), the risk weight associated with that external credit assessment shall be used. To avoid any double counting, no additional capital recognition is permitted. If the CRM provider is not recognised as an eligible guarantor, the covered securitisation exposures shall be treated as unrated.
- (vi) In the situation where a CRM solely protects a specific securitisation exposure within a given structure (e.g., asset-backed security tranche) and this protection is reflected in the external credit assessment, the NBFC shall treat the exposure as if it is unrated and then apply the CRM treatment outlined in paragraphs 154 to 181 of [Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#).
- (vii) An NBFC is not permitted to use any external credit assessment for risk weighting purposes where the assessment is at least partly based on unfunded support provided by the NBFC. For example, if an NBFC buys asset-backed security (ABS) where it provides an unfunded securitisation exposure (e.g., liquidity facility or credit enhancement), and that exposure plays a role in determining the credit assessment on the ABS, the NBFC shall treat the ABS as if it were not rated. The NBFC shall continue to hold capital against the other securitisation exposures it provides (e.g., against the liquidity facility and / or credit enhancement).

42. For exposures with short-term ratings, the following risk weights shall apply:

Table : ERBA risk weights for short-term ratings				
External credit assessment	A1+ / A1	A2	A3	All other ratings
Risk weight	15%	50%	100%	1250%

43. For exposures with long-term ratings, the risk weights depend on:

- (i) the external rating grade;



- (ii) the seniority of the position;
- (iii) the tranche maturity; and
- (iv) in the case of non-senior tranches, the tranche thickness.

44. Specifically, for exposures with long-term ratings, risk weights shall be determined according to the following table and shall be adjusted for tranche maturity and tranche thickness for non-senior tranches as prescribed in paragraph 45 of these Directions as mentioned below.

Table : ERBA risk weights for long-term ratings				
Rating	Senior tranche		Non-senior (thin) tranche	
	Tranche maturity (<i>MT</i>)		Tranche maturity (<i>MT</i>)	
	1 year	5 years	1 year	5 years
AAA	15%	20%	15%	70%
AA+	15%	30%	15%	90%
AA	25%	40%	30%	120%
AA-	30%	45%	40%	140%
A+	40%	50%	60%	160%
A	50%	65%	80%	180%
A-	60%	70%	120%	210%
BBB+	75%	90%	170%	260%
BBB	90%	105%	220%	310%
BBB-	120%	140%	330%	420%
BB+	140%	160%	470%	580%
BB	160%	180%	620%	760%
BB-	200%	225%	750%	860%
B+	250%	280%	900%	950%
B	310%	340%	1050%	1050%
B-	380%	420%	1130%	1130%
CCC+ / CCC / CCC-	460%	505%	1250%	1250%
Below CCC-	1250%	1250%	1250%	1250%



45. The risk weight assigned to a securitisation exposure when applying the SEC-ERBA is calculated as follows:

- (i) To account for tranche maturity, an NBFC shall use linear interpolation between the risk weights for one and five years.
- (ii) To account for tranche thickness, an NBFC shall calculate the risk weight for non-senior tranches as follows:

$$\text{Risk weight} = (\text{risk weight from table after adjusting for maturity}) * (1 - \min(T, 50\%))$$

where T is the tranche thickness.

46. In the case of market risk hedges such as currency or interest rate swaps, the risk weight shall be inferred from a securitisation exposure that is *pari passu* to the swaps or, if such an exposure does not exist, from the next subordinated tranche.

47. The resulting risk weight is subject to a floor risk weight of 15 per cent. In addition, the resulting risk weight shall never be lower than the risk weight corresponding to a senior tranche of the same securitisation with the same rating and maturity.

48. An illustrative example for calculation of risk weights is as below:

- (i) Underlying loans being securitised: ₹2000 crores;
- (ii) Issued Securitised Notes: ₹1800 crores;
- (iii) Overcollateralisation: ₹200 crores;
- (iv) Maturity 'M' (as envisaged for use in RWA computation): 3 years;
- (v) Total underlying pool for purpose of attachment and detachment point computation: ₹2000 crores;
- (vi) Calculation below is exhibited for non-STC securitisation;
- (vii) Adjustment in Risk Weight for a maturity equal to

$$M \text{ years} = \text{RW}_{\text{year 1}} + (M-1) * \frac{\text{RW}_{\text{year 5}} - \text{RW}_{\text{year 1}}}{(5-1)} \text{ (Column 4 below);}$$



(viii) Risk Weight (%) = Risk weight as given in table in paragraph 44 of these Directions (depending upon senior / non-senior exposure) adjusted for maturity * (1- Minimum (T,50%)) (Column 5 below);

Illustration: RWA Computation

Securitisation Notes (1)	Determination of Tranche Thickness (2)	Rating (presumptive, not indicative) (3)	RW after interpolating linked to maturity year (4)	RW after factoring in tranche thickness (5)	RWA@ (6)
	Attachment point*: $(250+50+200) / 2000 = 0.25$		RW for 1 year = 15% RW for 5 year = 30%	No tranche thickness adjustment	$1500 * 22.5\% = 337.5$ crores
Note A (senior): INR 1500 crores	Detachment Point#: 1 $(1500+250+50+200) / 2000$	AA+	(from the table) Actual RW adjusting for maturity	requirement for senior tranche	
	Tranche thickness (T): $(1-0.25) = 0.75$		$15\% + (30-15)\% * 2 / 4 = 22.5\%$		
	Attachment point: $(50+200) / 2000 = 0.125$		RW for 1 year = 40% RW for 5 year = 140% (from the table)	$90\% * (1 - \text{Min}(0.5, 0.125)) = 78.75\%$	$250 * 78.75\% = 196.875$ crores
Note B: 250 crores	Detachment Point: $(250+50+200) / 2000 = 0.25$	AA-	Actual RW adjusting for maturity		
	Tranche thickness (T): $(0.25-0.125) = 0.125$		$40\% + (140-40)\% * 2 / 4 = 90\%$		
	Attachment point: $200 / 2000 = 0.10$		RW for 1 year = 470% RW for 5 year = 580% (from the table)	$525\% * (1 - \text{Min}(0.5, 0.025)) = 511.875\%$	$50 * 511.875\% = 255.94$ crores
Note C: 50 crores	Detachment Point: $(50+200) / 2000 = 0.125$	BB+	$470\% + (580-470)\% * 2 / 4 = 525\%$		
	Tranche thickness (T): $(0.125-0.10) = 0.025$				
Total Risk-Weighted Assets					790.315 crores

*Attachment point of a tranche is the fraction of pool losses to which it is not exposed

#Detachment point of a tranche is the fraction of pool losses at which it is entirely wiped-out Attachment point of one tranche is the detachment point of the next-most junior tranche.



Alternative capital treatment for simple, transparent and comparable (STC) securitisation

(This paragraph is applicable to STC securitisations. Securitisation transactions that satisfy all the criteria laid out in [Reserve Bank of India \(Non-Banking Financial Companies –Securitisation Transactions\) Directions, 2025](#) fall within the scope of the STC framework.)

49. For exposures with short-term ratings, the following risk weights shall apply:

Table : ERBA STC risk weights for short-term ratings				
External credit assessment	A1+ / A1	A2	A3	All other ratings
Risk weight	10%	30%	60%	1250%

50. For exposures with long-term ratings, risk weights shall be determined according to the following table and shall be adjusted for tranche maturity, and tranche thickness for non-senior tranches according to paragraph 44 of these Directions as mentioned above.

Table : ERBA STC risk weights for long-term ratings				
Rating	Senior tranche		Non-senior (thin) tranche	
	Tranche maturity (<i>MT</i>)		Tranche maturity (<i>MT</i>)	
	1 year	5 years	1 year	5 years
AAA	10%	10%	15%	40%
AA+	10%	15%	15%	55%
AA	15%	20%	15%	70%
AA-	15%	25%	25%	80%
A+	20%	30%	35%	95%
A	30%	40%	60%	135%
A-	35%	40%	95%	170%
BBB+	45%	55%	150%	225%
BBB	55%	65%	180%	255%
BBB-	70%	85%	270%	345%
BB+	120%	135%	405%	500%
BB	135%	155%	535%	655%



BB-	170%	195%	645%	740%
B+	225%	250%	810%	855%
B	280%	305%	945%	945%
B-	340%	380%	1015%	1015%
CCC+ / CCC / CCC-	415%	455%	1250%	1250%
Below CCC-	1250%	1250%	1250%	1250%

51. The resulting risk weight is subject to a floor risk weight of 10 per cent for senior tranches, and 15 per cent for non-senior tranches.

Note - All the criteria mentioned in the [Reserve Bank of India \(Non-Banking Financial Companies – Securitisation Transactions\) Directions, 2025](#) shall be satisfied for a securitisation to receive the alternative regulatory capital treatment as determined by paragraphs 49 to 51 as mentioned above.



Chapter IV

Guidelines for credit default swap (CDS)

52. An NBFC shall participate in CDS market as a user. As a user, it shall buy credit protection only to hedge their credit risk on corporate bonds it holds. It shall not sell protection and hence shall not enter into short positions in the CDS contracts. It shall exit its bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond or by assigning the contract to any other eligible market participant through novation (only in case of events such as winding-up or mergers / acquisitions).
53. An NBFC, as user of CDS, shall fulfil the following requirements regarding CDS.
- (1) Operational requirements for CDS
- (i) A CDS contract shall represent a direct claim on the protection seller and shall be explicitly referenced to specific exposure, so that the extent of the cover is clearly defined and incontrovertible.
 - (ii) Other than non-payment by a protection buyer of premium in respect of the credit protection contract, it shall be irrevocable.
 - (iii) There shall be no clause in the contract that shall allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.
 - (iv) The CDS contract shall be unconditional. There shall be no clause in the protection contract outside the direct control of the NBFC that could prevent the protection seller from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.
 - (v) The credit events specified by the contracting parties shall at a minimum cover:
 - (a) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);



- (b) bankruptcy, insolvency, or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events;
 - (c) restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event; and
 - (d) when the restructuring of the underlying obligation is not covered by the CDS, but the other requirements in paragraph 53(1) are met, partial recognition of the CDS shall be allowed. If the amount of the CDS is less than or equal to the amount of the underlying obligation, 60 per cent of the amount of the hedge can be recognised as covered. If the amount of the CDS is larger than that of the underlying obligation, then the amount of eligible hedge is capped at 60 per cent of the amount of the underlying obligation.
- (vi) If the CDS specifies deliverable obligations that are different from the underlying obligation, the resultant asset mismatch shall be governed under paragraph 53(1)(x).
- (vii) The CDS shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay.
- Note* - The maturity of the underlying exposure and the maturity of the hedge shall both be defined conservatively. The effective maturity of the underlying shall be gauged as the longest possible remaining time before the counterparty is scheduled to fulfill its obligation, taking into account any applicable grace period.
- (viii) If the protection buyer's right / ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation shall provide that any required consent to such transfer may not be unreasonably withheld.
- (ix) The identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the sole responsibility of the protection seller. The protection buyer shall



have the right / ability to inform the protection seller of the occurrence of a credit event.

- (x) A mismatch between the underlying obligation and the reference obligation or deliverable obligation is permissible, if (a) the reference obligation or deliverable obligation ranks pari-passu with or is junior to the underlying obligation, and (b) the underlying obligation and reference obligation or deliverable obligation share the same obligor (i.e., the same legal entity) and legally enforceable cross default or cross acceleration clauses are in place.
- (xi) A mismatch between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible if (a) the latter obligation ranks pari-passu with or is junior to the underlying obligation, and (b) the underlying obligation and reference obligation share the same obligor (i.e., the same legal entity) and legally enforceable cross-default or cross acceleration clauses are in place.

(2) Treatment of exposures below materiality thresholds

Materiality thresholds on payments below which no payment is made in the event of loss as per the CDS contract, are equivalent to retained first loss positions and shall be assigned risk weight of 667 per cent ($1 / 0.15 * 100$ as minimum CRAR requirement for an NBFC is 15 per cent) for capital adequacy purpose by the protection buyer.

(3) Prudential treatment post-credit event

In case the credit event payment is not received within the period as stipulated in the CDS contract, the NBFC shall ignore the credit protection of the CDS and reckon the credit exposure on the underlying asset and maintain appropriate level of capital and provisions as warranted for the exposure. On receipt of the credit event payment, (a) the underlying asset shall be removed from the books if it has been delivered to the protection seller; or (b) the book value of the underlying asset shall be reduced to the extent of credit event payment received if the credit event payment does not fully cover the book value of the underlying asset and appropriate provisions shall be maintained for the reduced value.



(4) Capital adequacy

In terms of these Directions, risk weights for credit risk for corporate bonds held by an NBFC is 100 per cent. A CDS contract creates a counterparty exposure on the protection seller on account of the credit event payment. In case of hedging of the cash position by CDS, the exposure shall be reckoned on the protection seller subject to the conditions mentioned in paragraph 53(5) below. An NBFC shall calculate the counterparty credit risk charge for all bought CDS positions as the sum of the current mark-to-market value, (if positive and zero, if MTM is negative) and the potential future exposure.

(5) Treatment of exposure to the protection seller

(i) Exposure to the underlying asset in respect of the hedged exposure shall be deemed to have been substituted by exposure to the protection seller, if the following conditions are satisfied:

- (a) Operational requirements mentioned in paragraph 53(1) are satisfied.
- (b) There is no maturity mismatch between the underlying asset and the deliverable obligation. If this condition is not satisfied, then the amount of credit protection to be recognised shall be computed as indicated in paragraph 53(5)(ii) below. In all other cases the exposure shall be deemed to be on the underlying asset.

(ii) Risk weights as applicable to the underlying assets shall be applied for the unprotected portion of the exposure. The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset / obligation and the deliverable asset / obligation with regard to asset or maturity. These are dealt with in detail in the following paragraphs.

(iii) Mismatches

The amount of credit protection shall be adjusted if there are any mismatches between the underlying asset / obligation and the deliverable asset / obligation with regard to asset or maturity.

- (a) Asset mismatches: Asset mismatch will arise if the underlying asset is different from the deliverable obligation. Protection shall be reckoned



as available to the NBFC only if the mismatched assets meet the requirements specified in paragraph 53(1)(x) above.

- (b) Maturity mismatches: The NBFC shall be eligible to reckon the amount of protection if the maturity of the credit derivative contract were to be equal to the maturity of the underlying asset. If, however, the maturity of the CDS contract is less than the maturity of the underlying asset, then it shall be construed as a maturity mismatch. In case of maturity mismatch the amount of protection shall be determined in the following manner:

- (i) If the residual maturity of the credit derivative product is less than three months no protection shall be recognised.
- (ii) If the residual maturity of the credit derivative contract is three months or more protection proportional to the period for which it is available shall be recognised.

When there is a maturity mismatch the following adjustment shall be applied. $P_a = P \times (t - .25) \div (T - .25)$

Where: P_a = value of the credit protection adjusted for maturity mismatch

P = credit protection

t = min (T , residual maturity of the credit protection arrangement) expressed in years

T = min (5, residual maturity of the underlying exposure) expressed in years

Example: Suppose the underlying asset is a corporate bond of Face Value of ₹100 where the residual maturity is of five years and the residual maturity of the CDS is four years. The amount of credit protection is computed as under:

$$100 * \{(4-.25) \div (5-.25)\} = 100 * (3.75 \div 4.75) = 78.95$$

- (iii) Once the residual maturity of the CDS contract reaches three months, protection ceases to be recognised.



- (iv) An NBFC as a user shall adhere to all the criteria required for transferring the exposures fully to the protection seller in terms of paragraph 53(5)(i) above on an ongoing basis so as to qualify for exposure relief on the underlying asset. In case any of these criteria are not met subsequently, the NBFC shall have to reckon the exposure on the underlying asset. Therefore, the NBFC shall restrict the total exposure to an obligor including that covered by way of CDS within an internal exposure ceiling considered appropriate by the Board of the NBFC in such a way that it shall not breach the single / group borrower exposure limit prescribed by the Reserve Bank. In case of the event of any breach in the single/group borrower exposure limit, the entire exposure in excess of the limit shall be risk weighted at 667 per cent. To ensure that consequent upon such a treatment, the NBFC shall not breach the minimum capital requirement prescribed by the Reserve Bank, it shall keep sufficient cushion in capital in case it assumes exposures in excess of normal exposure limit.
- (v) No netting of positive and negative marked-to-market values of the contracts with the same counterparty shall be allowed for the purpose of complying with the exposure norms.

(6) General provisions requirements

For the CDS positions of an NBFC, it shall hold general provisions for gross positive marked-to-market values of the CDS contracts.

(7) Reporting requirement

On a quarterly basis, an NBFC shall report 'total exposure' in all cases where it has assumed exposures against borrowers in excess of the normal single / group exposure limits due to the credit protections obtained by it through CDS, guarantees or any other permitted instruments of credit risk transfer, to the Regional Office of Department of Supervision of the Reserve Bank where it is registered.



Chapter V

Internal Capital Adequacy Assessment Process (ICAAP) [Applicable to NBFC-ML and above]

54. An NBFC shall make a thorough internal assessment of the need for capital, commensurate with the risks in its business. This internal assessment shall be on similar lines as ICAAP prescribed for commercial banks under Pillar 2 under [Reserve Bank of India \(Commercial Banks - Prudential Norms on Capital Adequacy\) Directions, 2025](#). While Pillar 2 capital will not be insisted upon, an NBFC shall make a realistic assessment of risks. Internal capital assessment shall factor in credit risk, market risk, operational risk, and all other residual risks as per methodology to be determined internally. The methodology for internal assessment of capital shall be proportionate to the scale and complexity of operations as per its Board approved policy. The objective of ICAAP is to ensure availability of adequate capital to support all risks in business as also to encourage an NBFC to develop and use better internal risk management techniques for monitoring and managing its risks. This will facilitate an active dialogue between the supervisors and an NBFC on the assessment of risks and monitoring as well as mitigation of the same.



Chapter VI

Repeal and Other Provisions

Repeal and Saving

55. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Prudential Norms on Capital Adequacy as applicable to Non-Banking Financial Companies stand repealed, as communicated vide circular [DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025](#). The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
56. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
- (i) any right, obligation or liability acquired, accrued, or incurred thereunder;
 - (ii) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
 - (iii) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

Application of other laws not barred

57. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

Interpretations

58. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

(Sunil T S Nair)
Chief General Manager