



NBFC Liquidity Norms

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The **Reserve Bank of India (RBI)** has introduced '**liquidity management framework**' for **Non-Banking Financial Companies (NBFCs)**.

The RBI move has come following **liquidity crunch** among some NBFCs in meeting their recent repayment obligations after the collapse of the Infrastructure Leasing and Financial Services (IL&FS) group.

Key Points

Liquidity Coverage Ratio

All non-deposit taking NBFCs (NBFC-NDs) with asset size of Rs 10,000 crore and above and all deposit-taking NBFCs have to maintain a liquidity buffer in terms of Liquidity Coverage Ratio (LCR).

- However **Type I - NBFC-ND** entities are exempt from the applicability of LCR norms.
- Type I - NBFC-ND entities are those which do not accept public funds and do not have customer interface and do not intend to engage in such activities.

Note

- LCR refers to the **proportion of highly liquid assets held by companies** to ensure their ongoing ability to meet short-term obligations.
- It will **promote resilience of NBFCs to potential liquidity disruptions** by ensuring that they have sufficient **High Quality Liquid Asset (HQLA)** to survive any acute liquidity stress scenario lasting for 30 days.
- **HQLAs** mean liquid assets that can be readily sold or immediately converted into cash at little or no loss of value, or used as collateral to obtain funds in a range of stress scenarios.

- The LCR requirement will be **binding on NBFCs from 1st December, 2020** with the minimum HQLAs to be held being 50% of the LCR, progressively reaching up to the level of 100% by 1st December, 2024.
- **Assets to be included as HQLA** include cash, government securities and marketable securities issued or guaranteed by foreign sovereigns. These assets should be free of any financial liability.
- **Significance:** The presence of liquid reserve will prevent a NBFC from going into a default loss if some inflows get delayed.

NBFCs should **adopt liquidity risk monitoring tools** and metrics in order to capture strains in liquidity position.

Source: IE