

Statement on the feedback received on Draft Amendment Directions

Subject: Draft Amendment Directions on ‘Clarification on Owned Fund / Tier 1 Capital computation for NBFCs / ARCs and applicability to Credit/Investment Concentration Norms’

The Reserve Bank had, on [January 13, 2026](#), issued draft Amendment Directions on ‘Clarification on Owned Fund / Tier 1 Capital computation for NBFCs / ARCs and applicability to Credit / Investment Concentration Norms’, seeking feedback from stakeholders. Major feedback received and the comments thereon are summarized below:

1. Paragraph 5 (1) of the Reserve Bank of India (Standalone Primary Dealers) Amendment Directions, 2026

“.....**Such profits shall be reduced by average dividend paid in the last three years and the amount which can be reckoned for inclusion would be arrived at as under:**

$$**EP_t = NP_t - 0.25 * D^*t**”$$

Feedback: A stakeholder suggested that in the formula, the deductible (viz., - 0.25*D*t) based on the fixed “average dividend amount paid over the previous three years” be replaced with one based on a variable quarterly Dividend Pay-out Ratio (DPR), reckoned on a cumulative basis, submitting that using absolute dividend amount may result in quarterly profits not being reckoned at all for inclusion in capital during periods of stress, when quarterly profits are likely to drop significantly below historical dividend levels.

RBI Comments: Not Accepted

A cumulatively increasing pay-out ratio for considering transfers to capital would be overly complex. The formula proposed in the draft Directions (i.e., deducting the three-year average dividend *amount* from profits for Tier 1 capital computation), maintains parity with the framework applicable for banks and NBFCs in the Upper Layer.

2. Paragraph 5 (1) of the Reserve Bank of India (Standalone Primary Dealers) Amendment Directions, 2026 and Paragraph 5 of the Reserve Bank of India

(Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026

“.....The financial statements shall be subjected to limited review on a quarterly basis by the statutory auditors.”

Feedback: Stakeholders have sought exemption from the mandated limited review on a quarterly basis of financial statements, arguing that for unlisted NBFCs, quarterly audits, which impose compliance costs, are not required under the Companies Act 2013, and / or are outside SEBI’s Listing Obligations and Disclosure Requirement guidelines.

RBI Comments: Not Accepted

Even commercial banks and NBFCs in the Upper layer, which are subject to more rigorous prudential norms and supervision, undergo quarterly reviews and provide detailed disclosures. Hence, unlisted NBFCs, which are not subject to similar regulatory and supervisory rigor, must be subject to limited review by statutory auditors. This is necessary for assurance on the profits being recognized to mitigate the risk of reversal required later.

3. Paragraph 5 of Reserve Bank of India (Housing Finance Companies) Amendment Directions, 2026; and Paragraph 5 of the Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026

“.....free reserves *including quarterly profits*,

Inclusion of quarterly profits shall be subject to the following conditions:

(i) The financial statements shall be subjected to limited review on a quarterly basis by the statutory auditors.

(ii) Such profits shall be reduced by average dividend paid in the last three years and the amount which can be reckoned for inclusion would be arrived at as under:

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

Where:

D = average dividend paid during the last three financial years

Feedback: Stakeholders have given the following inputs:

- I. Amend the phrase “free reserves, including quarterly profits” to “free reserves as on March 31st of the previous year, including quarterly profits.”
- II. Revise the definition of ‘D = average dividend paid during the last three years’ to ‘D = average dividend paid *for/pertaining to* the last three *financial* years’.
- III. The requirement for "limited review" of quarterly financial statements by statutory auditors be amended to "limited review / audit" to align with SEBI LODR regulations.
- IV. The term "average dividend paid" be expanded to "average dividend declared/paid" to explicitly include interim and final dividends.
- V. The phrase "during the last three years" be corrected to "for the last three years."
- VI. An additional clause be incorporated to adjust for interim dividends paid mid-year, stating: "In case where the company declares/pays interim dividend during the financial year, the average dividend shall be reduced by the amount of interim dividend already adjusted in the Capital Account."

RBI Comments:

- I. Not accepted: No change was deemed necessary in the said phrase, as it is understood that “quarterly profits” pertain to the current year only, for reckoning as capital.
- II. Accepted: The suggestion on dividend definition for revising “paid during last three years” has been accepted. The said phrase is now amended to “paid for / pertaining to last three financial years”, as it leads to better clarity and eliminates ambiguity, if any, regarding the reference period.
- III. Accepted: The requirement for "limited review" of quarterly financial statements by statutory auditors has been amended to "limited review / audit" of quarterly financial statements by statutory auditors.
- IV. Not accepted: As the said phrase already covers both interim and annual dividends.
- V. Accepted: The phrase "average dividend paid during the last three years" has been suitably modified to “average dividend paid for/pertaining to the last three financial years” (refer to II above).

- VI. Not accepted: The interim dividend is paid out of the profits of the current year, resulting in reduction of the available pool of profits. Hence, the suggestion has not been accepted.

4. Miscellaneous feedbacks

(a) Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026

Feedback: Clarity required on whether credit/investment concentration limits must be recalculated immediately after capital changes, or if a transition period can be allowed. It was also advocated to have a clear implementation timeline and transitional arrangements.

RBI Comments: clarified as per following

The proposed Draft Directions only specify certain enabling conditions under which quarterly profits can be taken to capital if the NBFCs so require/ desire for the purpose of computing credit/ investment concentration limits. Therefore, no transition period is deemed necessary.

(b) Reserve Bank of India (Housing Finance Companies) Amendment Directions, 2026

Feedback: Paragraph 79 of RBI (HFC) Directions, 2025 caps HFCs' borrowings/deposits at 12 times Net Owned Fund (NOF). The Directions also allow post balance sheet capital infusions. Therefore, on similar lines, certified incremental quarterly profits may be permitted to be included in NOF for computing the borrowing limit.

RBI Comments: The feedback will be examined separately as it is outside the scope of current draft Directions.