



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

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RBI / 2011-12/20

DNBS (PD) CC No. 226/ 03.02.001 / 2011-12

July 1, 2011

To

The Chairman/CEOs of all Non-Banking Financial Companies (except Residuary Non-Banking Companies and Miscellaneous Non-Banking Companies)

Dear Sir,

**Notification as amended upto June 30, 2011 – “Non-Banking Financial Companies Auditor’s Report (Reserve Bank) Directions, 2008.”**

As you are aware, in order to have all current instructions on the subject at one place, the Reserve Bank of India issues circulars / notifications. The instructions contained in the Notification No. DNBS. 201 /DG(VL)-2008 dated September 18, 2008 updated as on June 30, 2011 are reproduced below.

The updated notification has also been placed on the RBI web-site (<http://www.rbi.org.in>).

Yours sincerely,

(Uma Subramaniam)  
Chief General Manager-in-Charge

**RESERVE BANK OF INDIA  
DEPARTMENT OF NON-BANKING SUPERVISION  
CENTRAL OFFICE  
CENTRE I, WORLD TRADE CENTRE  
CUFFE PARADE, COLABA,  
MUMBAI 400 005**

**Notification No. DNBS. 201 /DG(VL)-2008 dated September 18, 2008.**

The Reserve Bank of India (hereinafter referred to as "the Bank"), having considered it necessary in the public interest and for the purpose of proper assessment of books of accounts of NBFCs, in exercise of the powers conferred by sub-section (1A) of Section 45MA of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and of all the powers enabling it in this behalf, and in supersession of the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, issues to every auditor of every non-banking financial company, the Directions hereinafter specified.

**1. Short title, application and commencement of the Directions**

- (i) These Directions shall be known as "Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008."
- (ii) These Directions shall apply to every auditor of a non-banking financial company as defined in Section 45 I(f) of the Reserve Bank of India Act, 1934 (2 of 1934) hereinafter referred to as non-banking financial company.
- (iii) These Directions shall come into force with immediate effect.

**2. Auditors to submit additional Report to the Board of Directors**

In addition to the Report made by the auditor under Section 227 of the Companies Act, 1956 (1 of 1956) on the accounts of a non-banking financial company examined for every financial year ending on any day on or after the commencement of these Directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.

### **3. Matters to be included in the auditor's report**

The auditor's report on the accounts of a non-banking financial company shall include a statement on the following matters, namely: -

#### **(A) In the case of all non-banking financial companies**

- I. Whether the company is engaged in the business of non-banking financial institution and whether it has obtained a Certificate of Registration (CoR) from the Bank
- II. In the case of a company holding CoR issued by the Bank, whether that company is entitled to continue to hold such CoR in terms of its asset/income pattern as on March 31 of the applicable year.

Note: A reference in this regard is invited to paragraph 15 of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 in respect of deposit taking NBFCs and paragraph 15 of Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 in respect of non-deposit taking NBFCs.

- III. Based on the criteria set forth by the Bank in Company [Circular No. DNBS.PD. CC No. 85 / 03.02.089 /2006-07 dated December 6, 2006](#) for classification of NBFCs as Asset Finance Company (AFC), whether the non-banking financial company has been correctly classified as AFC as defined in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 with reference to the business carried on by it during the applicable financial year.

#### **(B) In the case of a non-banking financial company accepting/holding public deposits**

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely:-

- (i) Whether the public deposits accepted by the company together with other borrowings indicated below viz;
  - (a) from public by issue of unsecured non-convertible debentures/bonds;

(b) from its shareholders (if it is a public limited company) and

which are not excluded from the definition of 'public deposit' in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998

are within the limits admissible to the company as per the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998;

(ii) Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it under the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 are regularised in the manner provided in the said Directions;

(iii) Whether an Asset Finance Company having Capital to Risk Assets Ratio (CRAR) less than 15% or an Investment Company or a Loan Company as defined in paragraph 2(1)(ia), (vi) and (viii) respectively of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 is accepting "public deposit" without minimum investment grade credit rating from an approved credit rating agency;

(iv) In respect of NBFCs referred to in clause (iii) above, whether the credit rating, for each of the fixed deposits schemes that has been assigned by one of the Credit Rating Agencies listed in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 is in force; and

whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency;

(v) In case of NBFCs having Net Owned Funds of Rs 25 lakh and above but less than Rs 200 lakhs, whether the public deposit held by the companies is in excess of the quantum of such deposit permissible to it in terms of Notification No. DNBS. 199/CGM (PK) - 2008 dated June 17, 2008 and whether such company :

has frozen its level of deposits as on the date of that Notification; or

has brought down its level of deposits to the level of revised ceiling of deposits in terms of that Notification.

(vi) Whether the company has defaulted in paying to its depositors the interest and /or principal amount of the deposits after such interest and/or principal became due;

(vii) Whether the company has complied with the prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, and concentration of credit/investments as specified in the Directions issued by the Reserve Bank of India in terms of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

(viii) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in terms of the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 has been correctly determined and whether such ratio is in compliance with the minimum CRAR prescribed therein;

(ix) Whether the company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 45-IB of the RBI Act and whether the details of the designated bank in which the approved securities are held is communicated to the office concerned of the Bank in terms of Notification No.DNBS.172/CGM(OPA)-2003 dated July 31, 2003;

(x) Whether the company has furnished to the Bank within the stipulated period the return on deposits as specified in the NBS 1 to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998;

(xi) Whether the company has furnished to the Bank within the stipulated period the half-yearly return on prudential norms as specified in the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

(xii) Whether, in the case of opening of new branches or offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, the company has complied with the requirements contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

**(C) In the case of a non-banking financial company not accepting public deposits**

Apart from the aspects enumerated in (A) above, the auditor shall include a statement on the following matters, namely: -

- (i) Whether the Board of Directors has passed a resolution for non-acceptance of any public deposits.
- (ii) Whether the company has accepted any public deposits during the relevant period/year;
- (iii) Whether the company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- (iv) In respect of Systemically Important Non-deposit taking NBFCs as defined in paragraph 2(1)(xix) of the Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

whether the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS- 7, has been correctly arrived at and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank;

whether the company has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period.

**(D) In the case of a company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions**

Apart from the matters enumerated in (A)(I) above where a company has obtained a specific advice from the Bank that it is not required to hold COR from the Bank the auditor shall include a statement that the company is complying with the conditions stipulated as advised by the Bank.

**4. Reasons to be stated for unfavourable or qualified statements**

Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 3 above, his report shall indicate such fact together with reasons therefor.

**5. Obligation of auditor to submit an exception report to the Bank**

(I) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

- the provisions of Chapter III B of Reserve Bank of India Act, 1934 (Act 2 of 1934); or
- the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998; or
- Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; or
- Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall

not contain any statement with respect to compliance of any of those provisions.

**6. Repeal and saving**

The Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998 shall stand repealed by these Directions.

Not with standing such repeal,

(a) any action taken, purported to have been taken or initiated under the Directions hereby repealed shall, continue to be governed by the provisions of said Directions

(b) any reference in other Notifications issued by the Bank containing reference to the said repealed Directions, shall mean reference to these Directions, namely, Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 after the date of repeal.

Sd/-  
(V. Leeladhar)  
DEPUTY GOVERNOR