RBI issues NBFCs Auditor's Report Directions 2016

12 October 2016

First Notes on

Financial Reporting

Corporate law updates

Regulatory and other information

Disclosures

Sector

All

Banking and Insurance

Information, Communication, Entertainment

Consumer and Industrial Markets

Infrastructure and Government

Relevant to

All

Audit committee

CFO

Others

Transition

Immediately

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

Background

In 2015, the Reserve Bank of India (RBI) through a master circular (RBI/2015-16/11) issued the Non-Banking Financial Companies (NBFCs) Auditor’s Report Directions, 2008 which provided additional directions on matters to be reported by auditors of an NBFC.

New development

On 29 September 2016, RBI issued NBFCs Auditor’s Report Directions, 2016 (Auditor’s Report Directions, 2016) to every auditor of an NBFC for submission of an additional report to the Board of Directors (Board). These directions replace the previous circular and shall come into force with immediate effect.

This issue of First Notes provides a summary of the Auditor’s Report Directions, 2016.

Overview of Auditor’s Report Directions, 2016

- As per the Auditor’s Report Directions, 2016, every auditor of an NBFC is required to report separately on the matters directed in the given table to the Board.
- This report is in addition to the report made by auditors under Section 143 of the Companies Act, 2013 (2013 Act) on the accounts of the NBFCs and the same is termed as ‘Additional Auditor’s Report’.

I. Additional Auditor’s Report

In addition to the report made by the auditor of an NBFC on the accounts for every financial year, the auditor is also required to make a separate report to the Board of the NBFC. The following table summarises the matters to be included in the Additional Auditor’s Report:

A.	Applicable to all NBFCs
i.	Whether the company has obtained a valid Certificate of Registration (CoR) from RBI.
ii.	In case the company holds a CoR, whether it is entitled to continue to hold such CoR in terms of its principal business criteria (financial asset/income pattern) as on 31 March of the applicable year.
iii.	Whether the NBFC is meeting the required Net Owned Fund (NOF)* requirement. *(This is a new requirement in the Additional Auditor’s Report to be made by the auditors under this direction.)*

A. Applicable to all NBFCs (cont.)

**Minimum NOF required for prescribed class of NBFCs are as follows:*

Type of NBFC	*Minimum NOF*
NBFC, except wherever a specific requirement is prescribed by RBI	*INR2 crore*
NBFC - Infrastructure Finance Company (NBFC-IFC)	*INR300 crore*
NBFC – Factor	*INR5 crore*
NBFC - Micro Finance Institution (NBFC-MFI)	*INR5 crore (INR2 crore for NBFC-MFIs registered in the north east)*
Deposit taking NBFC (NBFC-D)	*INR2 crore*
Infrastructure Debt Fund - NBFC (IDF-NBFC)	*INR300 crore*

(Source: RBI Master Directions DNBR.PD.007/03.10.119/2016-17 and DNBR. PD. 008/03.10.119/2016-17)

(The new direction has done away with the requirement to comment on whether the NBFC has been correctly classified as Asset Finance Company (AFC) as defined in NBFCs Acceptance of Public Deposits (Reserve Bank) Directions, 1998 with reference to the business carried on by it during the applicable financial year.)

B. In case of NBFC accepting/holding public deposits

i. Whether the public deposits accepted by the company together with other borrowings indicated are:
   a. From public by issue of unsecured non-convertible debentures/bonds
   b. From its shareholders (if it is a public limited company), and
   c. Not excluded from the definition of 'public deposit' and are within the limits admissible to the company as per the provisions of the NBFCs Acceptance of Public Deposits (Reserve Bank) Directions, 2016 (NBFCs deposit directions).

ii. Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it are regularised in the manner provided in the NBFCs deposit directions.

iii. Whether the NBFC is accepting public deposits without having minimum investment grade credit rating from an approved credit rating agency as per the provisions of NBFCs deposit directions.

iv. Whether the capital adequacy ratio** as disclosed in the return submitted to RBI in terms of the NBFC - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (NBFC Systemically important company directions) has been correctly determined and whether such ratio is in compliance with the minimum Capital to Risk-weighted Assets Ration (CRAR) prescribed therein.

1. Every applicable NBFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 per cent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.	*2. (a) The Tier I capital in respect of applicable NBFCs (other than NBFC-MFI and IDF-NBFC), at any point of time, shall not be less than 8.5 per cent by 31 March, 2016 and 10 per cent by 31 March, 2017.* *(b) (i) NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 per cent of its aggregate risk weighted assets.* *(ii) The total of Tier II Capital at any point of time, shall not exceed 100 per cent of Tier I Capital.*	*3. Applicable NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 per cent or more of their financial assets) shall maintain a minimum Tier I capital of 12 per cent.*

(Source: RBI's Master Direction DNBR. PD. 008/03.10.119/2016-17)

B. In case of NBFC accepting/holding public deposits (cont.)

v. In respect of NBFCs referred to in clause (iii) above:

a. whether the credit rating, for each of the fixed deposits schemes that has been assigned by one of the Credit Rating Agencies listed in NBFC deposit directions is in force, and

b. 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.

vi. Whether the company has violated any restriction on acceptance of public deposit as provided in NBFCs deposit directions.
(This is a new requirement to be reported in the Additional Auditor's Report under this direction.)

vii. Whether the company has defaulted in paying the interest and/or principal amount of the deposits after it became due.

viii. 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 by the NBFC - Systemically important company directions.

ix. Whether the company has complied with the liquid assets requirement and communicated the details of the designated bank in which the approved securities are held to the concerned bank.

x. Whether the company has furnished Return on deposits as specified in the NBS-1 to RBI within the stipulated period:

Sr. No.	Name of the return	Periodicity	Reference date	Reporting time	Due on
1.	NBS-1	Quarterly	31 March/30 June/ 30 September/31 December	15 days	15 April/15 July/ 15 October/15 January

xi. Whether the company has furnished to RBI within the stipulated period the quarterly return on prudential norms as specified in the directions:

Sr. No.	Name of the return	Periodicity	Reference date	Reporting time	Due on
2.	NBS-2	Quarterly	31 March/30 June/ 30 September/31 December	15 days	15 April/15 July/ 15 October/15 January

xii. In the case of opening of new branches/offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, whether the company has complied with the requirements of NBFCs deposit directions.
(In case of NBFCs having NOF of INR2.5 million and above but less than INR20 million, the Auditor's Report Directions, 2016 has done away with the requirement to report 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 17 June 2008 and whether such company:
(a) has frozen its level of deposits as on the date of that notification, or
(b) has brought down its level of deposits to the level of revised ceiling of deposits in terms of that notification.)

C. In case of NBFC not accepting/holding public deposits (apart from the aspects enumerated in (A) above)

i. Whether the Board 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 specified under the systemically important company directions.

iv. In case of NBFC-ND-SI (Systematically Important NBFCs-ND):

a. Whether capital adequacy ratio as disclosed in form NBS–7 has been correctly arrived at and also whether it is in compliance with the specified minimum CRAR.

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

C. In case of NBFC not accepting/holding public deposits (apart from the aspects enumerated in (A) above) (cont.)

Sr. No.	Name of the return	Periodicity	Reference date	Reporting time	Due on
3.	NBS-7	Quarterly	31 March/30 June/ 30 September/31 December	15 days	15 April/15 July/ 15 October/15 January

v. Whether the NBFC has been correctly classified as NBFC–MFI as per the systemically important and non-systemically important company directions.

D. In case of company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions (apart from the aspects enumerated in (A) above)

i. Where a company has obtained specific advice that it is not required to hold CoR, the auditor shall include a statement that the company is complying with the conditions stipulated as advised by RBI.

Reasons to be stated for unfavourable/qualified statements: An auditor is required to state the reasons for an unfavourable/qualified statement in respect of the matters given in the above table. In case, he is unable to express any opinion, the fact together with reasons should be stated.

II. Auditor's Exception Report to RBI

Obligation to submit an exception report to RBI: An auditor is required to make a report comprising any unfavourable/qualified statement issued with respect to any of the matters given in the table above or about the non-compliance with the following:

a. the provisions of Chapter III B of the RBI Act - (Provisions relating to non-banking institutions receiving deposits and financial institutions),

b. NBFCs deposit directions, or

c. Systemically important directions.

Such an exception report is to be submitted to the concerned regional office of the department of non-banking supervision of RBI under whose jurisdiction the registered office of the company is located as per Schedule I to the NBFCs deposit directions.

Our comments

- RBI is in the process of issuing Master Directions with consolidated instructions based on rules and regulations framed under various Acts including banking issues and notifications issued earlier. The Auditor's Report Directions, 2016 signifies that RBI continues to assess the adequacy of reporting requirements for auditors of NBFCs.
- RBI has reiterated the roles and responsibilities of auditors of NBFCs on the additional aspects to be reported to the Board through these directions.

The bottom line

- This circular enhances the reporting requirements for auditors in the Additional Auditor's Report and Exception Report *(where applicable)* that are expected to be relevant to the Board and RBI respectively.

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KPMG in India’s IFRS institute

KPMG in India is pleased to re-launch its IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework..

IFRS Notes

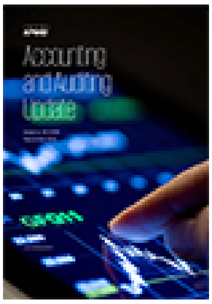
SEBI issues clarification on revenue recognition inclusive of excise duty

22 September 2016

The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) issued a notification on behalf of SEBI, on 20 September 2016, which clarifies that companies should follow a uniform approach in their revenue disclosures. Accordingly, ‘income from operations’ may be disclosed inclusive of excise duty, instead of net of excise duty, as specified in the 2013 Act.

Our IFRS Notes provide an overview of the notifications issued by the BSE and NSE.

Missed an issue of Accounting and Auditing Update or First Notes?



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The CBDT notifies revised ICDS

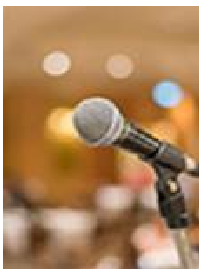
5 October 2016

The Central Board of Direct Taxes (CBDT) through its notification No. 87/2016 dated 29 September 2016 notified revised ICDS and repealed its earlier Notification No. 32/2015, dated 31 March 2015.

Further, CBDT through its notification No. 88/2016, dated 29 September 2016 has also amended Tax Audit Report Form No. 3CD in the Income-tax Rules, 1962 by inserting a new sub-clause in the Form No. 3CD to provide details of adjustments with respect to ICDS and disclosures as per ICDS.

There are no amendments to three ICDSs relating to accounting policies, government grants and provisions, contingent liabilities and contingent assets. All other ICDS have amendments.

This issue of First Notes aims to highlight the key amendments to those ICDS.



KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

Special session on revised Income Computation and Disclosure Standards (ICDS)

In our recent call, on 7 October 2016, we provides an overview of the key changes to the ICDS and their likely impact on companies in India.

Feedback/queries can be sent to aaupdate@kpmg.com

Previous editions are available to download from: www.kpmg.com/in