CHAPTER 6

Disclosure requirements for NBFCs

This article aims to:

Provide a synopsis of the additional disclosure requirements prescribed in the SBR.

Background

Disclosures in financial statements play a critical role in the financial reporting process, as they narrate the events that have taken place during the financial period and how the company has performed. Corporate disclosures are essential for users of financial statements to understand the liquidity and the financial position and performance of the company. Investors base their investment decisions basis the information they obtain from the financial statements, and regulators get more information about compliance related requirements. The RBI, being responsible for overseeing India's credit and currency system needs to monitor the financial standing of NBFCs, and thus may require supplemental disclosures.

Current disclosure requirements for NBFCs

Currently, NBFCs are required to prepare their financial statements as per following guidelines:

- Format prescribed in Division III of Schedule III to the 2013 Act, and provide disclosures which are mandated therein.
- If an NBFC falls within the scope of the Ind AS road map, then it is also required to follow the Ind AS and provide the disclosures as per Ind AS[1].
- NBFCs that are listed on a recognised stock exchange in India are also required to comply with disclosure requirements prescribed in the SEBI Listing Regulations.

In conjunction with these requirements, RBI has from time-to-time prescribed a set of regulatory disclosures that are to be reported by the NBFCs[2]. Recently through the SBR, RBI has advocated additional disclosures in the financial statements for financial periods ending 31 March 2023. RBI also provided clarifications on these disclosure requirements through its circular dated 19 April 2022 on 'Disclosures in Financial Statements - Notes to Accounts of NBFCs' (disclosure guidelines). Figure 1 depicts the provisions applicable to NBFCs for preparation and presentation of its financial statements and disclosures.

Figure 1: Disclosure requirements for NBFCs

(Source: KPMG in India's analysis, 2022)

This article aims to provide an overview of the additional disclosure requirements prescribed by RBI as part of the SBR framework.

1. NBFCs which are not within the criteria prescribed for Ind AS road map by MCA are required to comply with the provisions of the Accounting Standards as mentioned in the Companies (Accounting Standards) Rules, 2021. For the purpose of this article, we have discussed the reporting requirements under Ind AS.
2. Since NBFCs prepare their financial statements considering various regulations (as mentioned above), the note on the 'basis of preparation of financial statements', which is part of notes to accounts should make an appropriate reference to Ind AS, the 2013 Act and the guidance issued by RBI.

Additional disclosure requirements prescribed by RBI

The RBI, vide the SBR disclosure guidelines has prescribed certain minimum disclosures. The RBI encourages NBFCs to provide comprehensive disclosures that would aid in the understanding of the financial position and performance of the company. NBFCs may omit line items/disclosures which are not applicable/not permitted or with no exposure/no transaction both in the reporting year and previous year. Further, disclosure requirements applicable to lower layers of NBFCs will be applicable to NBFCs in higher layers.

Table 1 below provides a snapshot of the additional disclosures required in the financial statements under SBR[3]

Disclosures	Existing/New disclosure requirements	Remarks
A. Disclosures applicable for annual financial statements of NBFCs in all layers (NBFC-BL, NBFC-ML and NBFC-UL)		
I. Exposures		
a. Exposure to real estate sector	This is an existing disclosure requirement.	Currently, Systemically Important non-deposit taking NBFCs and deposit taking NBFCs (SI-NBFCs) and HFCs are required to disclose their direct and indirect exposures to the real estate sector. Now, this requirement is applicable to all layers of NBFCs. There is no change in the format of reporting
b. Exposure to capital market	There is an amendment to the existing disclosure requirement by RBI	Refer Note A
c. Sectoral exposure	There is an amendment to existing disclosure requirement by RBI	Refer Note B
d. Intra-group exposure	This is a new disclosure requirement under RBI provisions	Refer Note C
e. Unhedged foreign currency exposure	This is a new disclosure requirement under RBI provisions	Disclosures of unhedged foreign currency exposure of financial instruments is currently required to be given under Ind AS 107, *Financial Instruments: Disclosures* Refer Note D
II. Related party disclosures	This is a new disclosure requirement under RBI provisions	Disclosures of related party transactions is currently required to be given under Ind AS 24, *Related Party Disclosures*. These requirements have been discussed in Chapter 2.
III. Disclosure of complaints from customers	There is an amendment to existing disclosure requirement by RBI	Refer Note E
Disclosures applicable for annual financial statements of NBFCs in the middle and upper layer (NBFC-ML and NBFC-UL)		
IV. Corporate governance disclosures	This is a new disclosure requirement under RBI provisions	Listed companies are already required to give these disclosures as per the provisions of the Listing Regulations Refer Note F
V. Breach of a covenant	This is a new disclosure requirement under RBI provisions	Refer Note G
VI. Divergence in asset classification	This is a new disclosure requirement under RBI provisions	These requirements have been discussed in Chapter 3.
Disclosures applicable for annual financial statements of NBFCs in the upper layer (NBFC-UL)		
VII. All disclosure requirements under Listing Regulations[4]	New disclosure requirements under RBI provisions	Listed companies are required to give these disclosures as per the provisions of the Listing Regulations Refer Note H

(Source KPMG in India's analysis, 2022 read with RBI circular dated 19 April 2022)

3. These disclosure requirements are in conjunction with the disclosures prescribed by SBR in the previous chapters
4. All NBFC-UL are required to get themselves listed within three years of identification as NBFC-UL, hence they need to comply with the provisions of the Listing Regulations

Notes

Disclosures applicable for annual financial statements of NBFCs in all layers of the SBR framework (NBFC-BL, NBFC-ML and NBFC-UL)

The disclosure requirements applicable to all layers of NBFCs is given below:

A. Exposure to capital market

Background

As per the current guidelines, Systemically Important NBFCs (SI-NBFCs) and HFCs are required to disclose their exposure to capital market in the financial statements as per the requirement of Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (SI-NBFC Master Directions) and Housing Finance Company (Reserve Bank) Directions, 2021 (HFC Master Directions)[5]. Currently, non-systemically important, non-deposit taking NBFCs (NBFC-ND) are not required to disclose the exposures to the capital market.

Amendment

The RBI, vide its SBR disclosure guidelines now requires NBFCs in all layers (i.e. including NBFC-NDs to provide the below mentioned additional details in the disclosure on 'exposure to the capital market'

- Underwriting commitments taken up by the NBFCs in respect of primary issue of equity instruments
- Financing to stockbrokers for margin trading (HFCs were already required to provide this disclosure)
- All exposures to Alternative Investment Funds (AIF)-in categories I, II and III.

B. Sectoral exposure

Background

Currently, SI-NBFCs (i.e. NBFCs that are systemically important) and HFCs are required to disclose sector-wise NPAs for the following sectors:

- Agriculture and allied activities
- MSME
- Corporate borrowers
- Services
- Unsecured personal loans
- Auto loans
- Other personal loans.

Additional details within each sector are not required to be given. NBFC-NDs (i.e. non-systemically, non-deposit taking NBFCs) are not required to provide such disclosures.

Amendment

As per the SBR disclosure guidelines, NBFCs in all layers of the SBR framework are now required to provide disclosures of total exposure (on and off-balance sheet), gross NPAs and percentage of gross NPAs to total exposure in the below mentioned sectors[6]:

- Agriculture and allied activities
- Industry (additional sectors are required to be disclosed within industry)
- Services (additional sectors are required to be disclosed within services)
- Personal loans (additional details are required to be disclosed within personal loans)
- Others, if any.

If exposure to a specific sub-sector/industry within each sector is more than 10 per cent of the Tier I capital of an NBFC (material sub-sector), then exposure to the material sub-sector is required to be disclosed separately within that sector. Exposures to other sub-sectors/industry within each sector which is less than 10 per cent of the Tier I capital of the NBFC are required to be aggregated and disclosed as 'others' within each sector.

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5. As per the extant guidelines, disclosures pertaining to exposure to the capital market includes:
   - Direct investment in equity shares, convertible bonds, convertible debentures and units of equity oriented mutual funds, the corpus of which is not exclusively invested in corporate debt (together termed as 'equity instruments')
   - Advances to corporates or other entities (including individuals) against shares/bonds/debentures or other securities or on clean basis to individuals for investment in equity instruments or for meeting promoter's contribution to the equity of new companies
   - Advances for any other purpose where equity instruments are fully or partly taken as primary security.
   - Secured and unsecured advances to stockbrokers and guarantees issue on behalf of stockbrokers and market makers
   - Bridge loans to companies against expected equity flows/issues and
   - Exposure to venture capital funds.
6. Prescribed sectoral disclosures are required to be based on the Sector-wise and Industry wise Bank Credit (SIBC) return submitted by schedule commercial banks to RBI and published by RBI as 'Sectoral Deployment of Bank Credit'.

C. Intra-group exposures

Background

Currently, NBFCs or HFCs are not required to make any disclosures pertaining to intra-group exposures.

Amendment

The SBR disclosure guidelines require NBFCs in all layers of the SBR framework to provide the following disclosures with regard to intra-group exposures:

- Total amount of intra-group exposures,
- Total amount of top 20 intra-group exposures and
- Percentage of intra group exposures to total exposure of the NBFC on borrower/ customers.

These disclosures are required for the financial year being reported along with comparatives for the previous year.

D. Unhedged foreign currency exposure

Background

Currently, Ind AS 107 requires NBFCs[7] to disclose the currency risk[8] arising on financial instruments that are denominated in a foreign currency. This includes qualitative disclosures on the exposures to risk and how they arise, the NBFC's objectives, policies and processes for managing the risk, and the methods used to measure the risk, and any changes to the exposure to risk or the NBFC's objectives, policies and processes as compared to the previous year. Quantitative disclosures are also required regarding the NBFC's exposure to the currency risk at the end of the reporting period, including, a sensitivity analysis for each currency to which the NBFC has significant exposure. However, a similar disclosure requirement is not there under any of the RBI provisions.

Amendment

The RBI now requires NBFCs to disclose details of its unhedged foreign currency exposures. Further, NBFCs need to disclose their policies to manage currency induced risk.

E. Disclosure of complaints to customers

Background

Currently, SI-NBFCs (i.e. systemically important NBFCs) and HFCs are required to disclose customer complaints in their financial statements as per requirement of SI-NBFC Master Directions and HFC-Master Directions[9].

Amendment

The SBR disclosure guidelines now require NBFCs in all layers of the SBR framework to include the certain additional disclosures with regard to customer complaints in a prescribed format. The disclosures are as follows:

- Instead of reporting the number of complaints redressed, NBFCs will now disclose the number of complaints disposed during the year (which includes the number of complaints rejected by the NBFC)
- Details of maintainable complaints[10] received by the NBFC from the Office of the Ombudsman (this includes number of complaints resolved in favour of the NBFC, number of complaints resolved after passing of awards against the NBFC, and complaints resolved through conciliation/mediation/ advisories)
- Number of awards unimplemented within the stipulated time (other than those appealed)
- Top five grounds of complaints received by the NBFCs from customers.

7. NBFCs that are required to prepare their financial statements in accordance with Ind AS
8. Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates
9. This includes number of complaints pending at the beginning of the year, number of complaints received during the year, number of complaints redressed during the year, and number of complaints pending at the end of the year.
10. Maintainable complaints refer to complaints on the grounds specifically mentioned in Integrated Ombudsman Scheme, 2021 and covered within the ambit of the Scheme.

Disclosure of maintainable complaints shall only be applicable to NBFCS which are included under The Reserve Bank - Integrated Ombudsman Scheme, 2021

Disclosures applicable for annual financial statements of NBFCs in the upper layer and middle layer (NBFC-ML and NBFC-UL)

F. Corporate governance

Background

Currently, as per the provisions of the Listing Regulations, NBFCs which have listed their specified securities[11] on a recognised stock exchange are required to provide corporate governance disclosures as part of their annual reports. However, these disclosures are not required for unlisted entities or for debt listed entities[12].

Amendment

- As per the SBR disclosure guidelines, non-listed NBFCs should endeavor to make full disclosure in accordance with the requirement of Listing Regulations. Unlisted NBFCs at the minimum should disclose the following under the corporate governance section of the annual report:
- Composition of the Board
  - Details of change in composition of the BoD during the current and previous financial year
  - Reasons for resignation given by independent director, where such resignation is before completion of his/her term
  - Relationship amongst the directors inter-se
- Committees of the Board and their composition (including the terms of reference of the committee, etc.)
- General Body Meetings (including resolutions passed at the meetings)
- Details of non-compliance with requirements of the 2013 Act (reasons for non-compliances should also be provided, including for accounting and secretarial standards)
- Details of penalties and strictures imposed on the NBFC by RBI.

G. Breach of a covenant

Background

As per Ind AS 107, NBFCs[13] are required to disclose specified details of defaults and breaches of loan agreement terms. Similar information is currently not required under the extant norms of RBI.

Amendment

As per the SBR disclosure guidelines, NBFCs are now required to disclose all instances of breach of covenant of loans availed or debt securities issued.

11. Specified securities are equity shares and convertible debt instruments
12. Entities that have listed their non-convertible securities on a recognised stock exchange
13. NBFCs that are required to prepare their financial statements in accordance with Ind AS

Disclosures applicable for annual financial statements of NBFCs in the upper layer (NBFC-UL)

As per the SBR framework, NBFC-UL would be mandatorily listed within three years of identification as NBFC-UL. Accordingly, upon being identified as NBFC-UL, unlisted NBFC-ULs are required to draw up a BoD approved road map for compliance with the disclosure requirements of a listed company under the Listing Regulations.

The disclosure requirements in Schedule V of the Listing Regulations on annual reports would also be applicable. As per Schedule V, the annual report will include the Management Discussion and Analysis report issued by management, the corporate governance report, other affirmations and reports by management or auditors or company secretaries, etc.

Comparatives for all disclosures

NBFCs are required to disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. Further, NBFCs shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

Next steps

The disclosure requirements prescribed in the SBR disclosure guidelines are expected to provide greater transparency on the operations and governance of the NBFC. Some of the information required is already reported by NBFCs under the provisions of other laws and regulations. Entities may thus disclose the additional disclosures as required by SBR along with the existing disclosure requirements, and may cross reference such information, where required to ensure there is no duplication of information in the financial statements. Additionally, entities should start preparing for the data requirements for some of the new disclosures required under the SBR.