

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:199
ANSWERED ON:03.08.2001
ASSET LIABILITY MANAGEMENT
A.P. JITHENDER REDDY;AMBATI BRAHMANAIAH

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India have recently issued some guidelines regarding Asset Liability Management (ALM) to all Non-Banking Financial Companies (NBFCs) having assets over Rs. hundred crore or public deposit of Rs. Twenty crore ;
- (b) if so, the details thereof;
- (c) whether the Chit Funds and other such agencies have not been covered under the guidelines ;
- (d) if so, the reasons therefor; and
- (e) the steps taken by the Government to protect the interest of small investors in Chit Funds?

Answer

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA)

(a) to (e) : A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a), (b), (c), (d) & (e) OF THE LOK SABHA STARRED QUESTION NO. 199 FOR 3.8.2001 REGARDING ASSET LIABILITY MANAGEMENT TABLED BY SHRI JITHENDER REDDY AND SHRI / BRAHMANAIAH.

(a) : The Reserve Bank of India has issued 'Guidelines for Asset-Liability Management (ALM) System in Non-Banking Financial Companies (NBFCs)'. These guidelines would be applicable to all the Non-Banking Financial Companies irrespective of whether they are accepting/holding public deposits or not. However, to begin with, NBFCs (engaged in and classified as equipment leasing, hire purchase finance, loan, investment and residuary non-banking companies) meeting the criteria of asset base of Rs.100.00 crore (whether accepting/holding public deposits or not) or holding public deposits of Rs.20.00 crore or more (irrespective of their asset size) as per their audited balance sheet as of 31st March, 2001, would be required to put in place the ALM System.

(b) : The guidelines aim at regulating the credit risk, interest rate risk, equity/commodity price risk, liquidity risk and operational risk and enforcing the risk management discipline, i.e. managing business after assessing the risks involved. The NBFCs need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. For this purpose, these guidelines will act as a Guide-Book for the managements of NBFCs relating to

- (i) ALM Information Systems (Management Information Systems and information availability, accuracy, adequacy and expediency),
- (ii) ALM Organisation (structure and responsibilities, and level of top management involvement), and
- (iii) ALM Process (Risk parameters, Risk Identification, Risk measurement, Risk Management and Risk Policies and tolerance levels).

(c) : The Chit Fund Companies, i.e. Miscellaneous Non-Banking Companies (MNBCs) and Nidhi Companies, i.e. Mutual Benefit Finance Companies (MBFCs) have been kept out of the purview of these guidelines.

(d) : The Chit Fund Operations are supervised by the Registrar of Chits of the concerned States under the rules framed by the State Governments under the Central Chit Funds Act, 1982 or any legislation passed by the States for regulation of Chit Fund activities in their jurisdiction. As regards Nidhi Companies, their operations are governed by the Department of Company Affairs of Government of India under the provisions of the Companies Act, 1956.

(e) : As the Chit Fund operations are regulated by the Registrars of the concerned States, Government of India/Reserve Bank of India need not initiate any measures in this regard.