GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:399
ANSWERED ON:19.12.2014
LENDING SHARE AGAINST NBFCS QUESTION
Raut Shri Vinayak Bhaurao;Roy Prof. Saugata

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) has tightened the norms for lending against shares by the Non-Banking Financial Companies (NBFCs); if so, the details thereof;

(c) whether the Government has any guidelines on lending against shares by NBFCs and the benefits likely to accrue to the public by these norms; and

(d) if so, the details thereof and if not, the reasons therefor along with the steps taken by the Government in this regard?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

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

STATEMENT REFERRED TO IN REPLY TO PARTS (A) TO (D) OF THE LOK SABHA STARRED QUESTION NO. 399 FOR 19TH DECEMBER, 2014, TABLED BY PROF. SAUGATA ROY AND SHRI VINA YAK BHAURAO RAUT, REGARDING LENDING SHARE AGAINST NBFCs

(a) and (b): Reserve Bank of India (RBI) has issued Directions on 21st August, 2014 advising that the Non-Banking Financial Companies (NBFCs), with asset size of Rs. 100 crore and above, lending against collateral of shares are required to maintain the Loan to Value Ratio (LTV) ratio of 50% and accept only Group one securities (specified in the policy circular dated 11th March, 2003, as amended from time to time, issued by the Securities and Exchange Board of India as collateral for loans of value more than Rs. 5 lakh, subject to review by RBI.

(c) and (d): Lending by NBFCs against shares could be in the normal course where shares are accepted as collateral or as part of their capital market operations. NBFCs lend either by way of pledge of shares in their favour, transfer of shares or by obtaining a power of attorney on the demat accounts of borrowers. Irrespective of the manner and purpose for which money is lent against shares, default by borrowers can and has in the past resulted in offloading of shares in the market by the NBFCs thereby creating avoidable volatility in the market. Certain other associated areas of concern relate to absence of adequate prior information to the stock exchanges on the shares held as pledge by NBFCs, probable overheating of the market, over-exposure by NBFCs to certain stocks and overleveraging of borrowers. Therefore, RBI has introduced a minimum set of guidelines on lending against shares by NBFCs, as stated above, while at the same time ensuring that these do not result in unnecessary constraints to the requirements of genuine borrowers.