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Statutory Audit of NBFC: Recent update in Disclosure Part

RBI Financial Statements Directions, 2025

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Presentation Agenda

A structured walkthrough of NBFC regulation and disclosure framework

01 **What is an NBFC?**

Definition, PBC criteria & multi-regulator model

02 **Scale-Based Regulation**

Base, Middle, Upper & Top Layer framework — post SBR 2021

03 **RBI Fin. Statements Directions**

Statutory authority, applicability matrix & timeline

04 **Balance Sheet & Provisioning**

Deadline engine, no-netting rules, Ind AS governance

05 **ECL vs IRACP**

Parallel engine, Impairment Reserve mechanics

06 **Disclosure Framework**

Universal disclosures — portfolio, risk transfer, liquidity

07 **ML/UL Advanced Requirements**

ALM, derivatives, divergence threshold, LCR

08 **Auditor's Role & Returns**

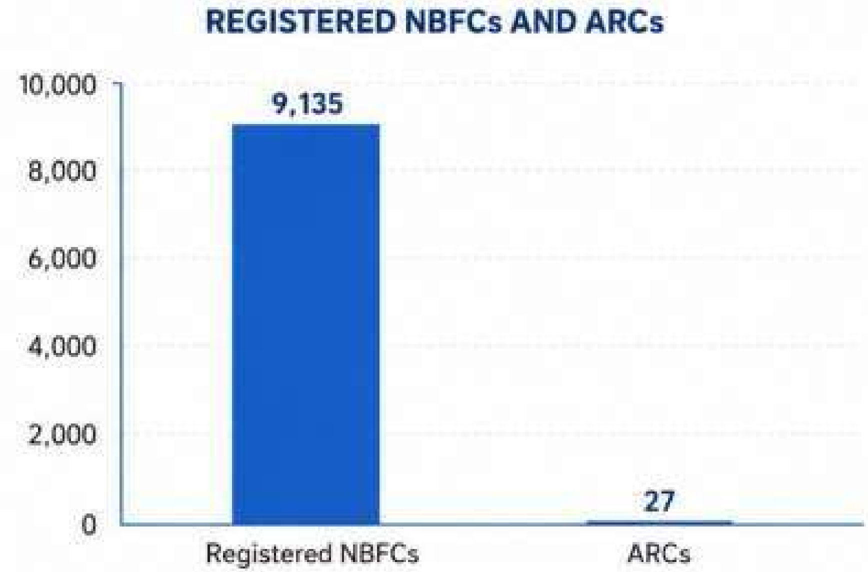
SAC DNBS10, exception reports, XBRL returns

REGISTERED NBFC AS ON 30.09.2025

DATA SOURCE : RBI

COUNTRY-WISE SUMMARY

Sr. No.	Country	Regulator	No. of Registered NBFCs	ARCs	Total
1	India	Reserve Bank of India	9,135	27	9,162



TOTAL: 9,162

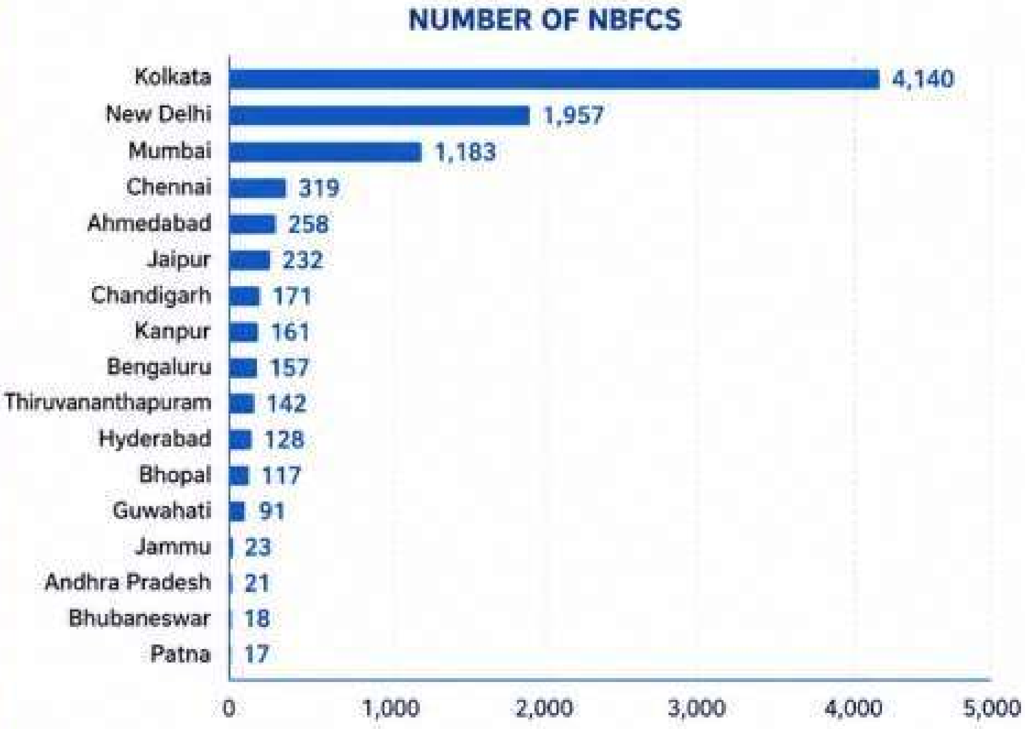
PANCHAL S K AND ASSOCIATES

REGISTERED NBFC AS ON 30.09.2025

DATA SOURCE : RBI

REGIONAL OFFICE / CITY-WISE NUMBER OF NBFCS

Sr. No.	Country	RBI Regional Office / City	No. of NBFCs
1	India	Kolkata	4,140
2	India	New Delhi	1,957
3	India	Mumbai	1,183
4	India	Chennai	319
5	India	Ahmedabad	258
6	India	Jaipur	232
7	India	Chandigarh	171
8	India	Kanpur	161
9	India	Bengaluru	157
10	India	Thiruvananthapuram	142
11	India	Hyderabad	128
12	India	Bhopal	117
13	India	Guwahati	91
14	India	Jammu	23
15	India	Andhra Pradesh	21
16	India	Bhubaneswar	18
17	India	Patna	17
Total			**9,135**



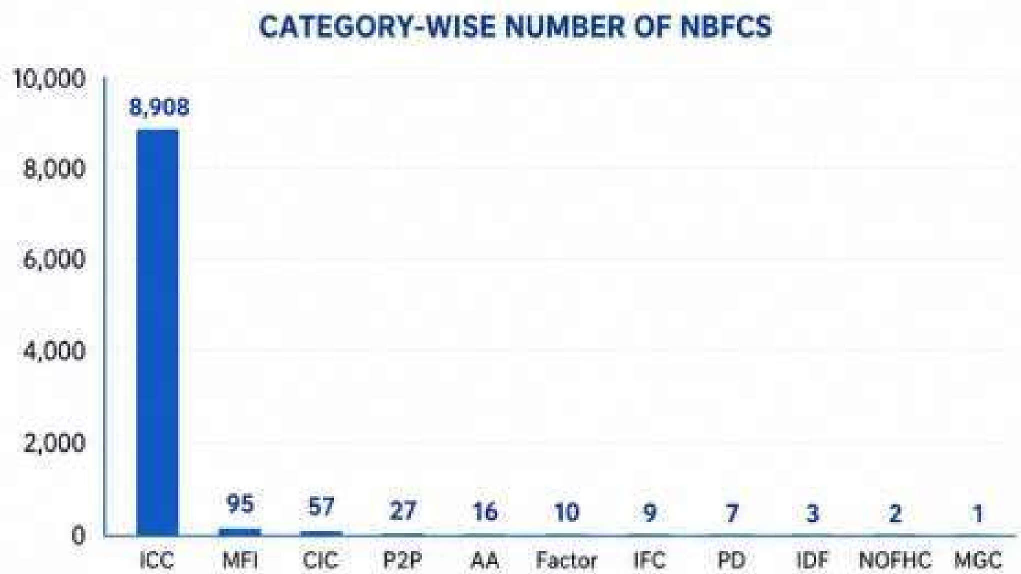
PANCHAL S K AND ASSOCIATES

REGISTERED NBFC AS ON 30.09.2025

DATA SOURCE : RBI

CATEGORY-WISE NUMBER OF NBFCS

Sr. No.	Category	No. of NBFCs
1	ICC — Investment and Credit Company	**8,908**
2	MFI — Micro Finance Institution	**95**
3	CIC — Core Investment Company	**57**
4	P2P — Peer-to-Peer Lending Platform	**27**
5	AA — Account Aggregator	**16**
6	Factor	**10**
7	IFC — Infrastructure Finance Company	**9**
8	PD — Primary Dealer	**7**
9	IDF — Infrastructure Debt Fund	**3**
10	NOFHC — Non-Operative Financial Holding Company	**2**
11	MGC — Mortgage Guarantee Company	**1**
	Total	**9,135**



TOTAL: 9,135

PANCHAL S K AND ASSOCIATES

REGISTERED NBFC AS ON 30.09.2025

DATA SOURCE : RBI

DEPOSIT PERMISSION-WISE NUMBER

Sr. No.	Particulars	No. of NBFCs
1	NBFCs not permitted to accept public deposits	9,118
2	NBFCs permitted to accept public deposits	17
	Total Registered NBFCs	9,135

DEPOSIT PERMISSION-WISE BREAKUP

Total Registered NBFCs: 9,135

PANCHAL S K AND ASSOCIATES

Part 1:
NBFC Fundamentals

What is an NBFC?

Sec 45I(c) of the RBI Act — Definition & Principal Business Criteria

Included Activities

- Financing — by giving loans or otherwise
- Acquisition of shares, stocks or securities
- Hire purchase & leasing of assets
- Management of chits / kuries
- Money circulation schemes

Excluded: If principal business is industrial, agricultural or trading — NOT an NBFC.

Exclusions from NBFC Definition

A company whose principal business is industrial activity, agricultural operations or trading goods is excluded from being classified as an NBFC, even if it also does some lending.

Principal Business Criteria (PBC)

50 : 50	Financial Assets / Total Assets
50 : 50	Financial Income / Total Income

Note: Cash, bank deposits, advance taxes & deferred tax excluded from financial assets.

Scale-Based Regulation (SBR)

RBI Directions DOR.CRE.REC.No.60/03.10.001/2021-22 | Effective 01.10.2022

TOP LAYER

RBI supervisory discretion.

UPPER LAYER

Top 10 NBFCs by asset size. Bank-like regulation.

MIDDLE LAYER

All NBFC-D (any size) + ND-NBFCs ≥ ₹1,000 Cr + SPDs, IDF, CIC, HFC, IFC

BASE LAYER

All ND-NBFCs < ₹1,000 Cr + P2P, AA, NOFHC & NBFCs with no public funds / customer interface

Source: RBI SBR Circular (Oct 2021) | As on 31.03.2023: 9,443 registered NBFCs — ~96% in Base Layer

Part 2:
RBI Financial Statements Directions, 2025

Applicability Matrix: Scale-Based Navigation

Three-tier compliance framework based on NBFC type and activity

✓ Fully Applicable	~ Partially Applicable	✗ Excluded
Deposit Taking (NBFC-D)	Standalone Primary Dealer (SPD) → Excludes Paras 13–15 & 20	Non-Operative Financial Holding Company (NOFHC)
Investment & Credit (NBFC-ICC)	Mortgage Guarantee Co. (MGC) → Excludes Para 20	NBFCs not availing public funds AND with no customer interface
NBFC-Factor	Peer to Peer (NBFC-P2P) → Excludes Paras 13–15 & 20	Base Layer NBFCs with customer interface but not availing public funds
Microfinance (NBFC-MFI)	Account Aggregator (NBFC-AA) → Excludes Paras 13–15 & 20	
Infrastructure Finance (NBFC-IFC)		
Infrastructure Debt Fund (IDF-NBFC)		
Housing Finance Company (HFC)		
Core Investment Company (CIC)		

Regulatory Triggers: Implementation Timeline

Key effective dates for compliance under the RBI Financial Statements Directions, 2025

IMMEDIATE

Nov 28, 2025

Directions Issued
All Prior Guidelines Repealed

QUARTERLY

Oct 1, 2025

Project Finance Disclosures (Para 21(2))
DCCO Tracking Begins

CLA MANDATE

Jan 1, 2026

Co-Lending (CLA) Directions Effective
New CLAs must comply

NFB UPDATE

Apr 1, 2026

Non-Fund Based Credit Facilities Rules Active (Para 21(3))

Core Mechanics: Balance Sheet Preparation & Provisioning

The Deadline Engine and Three Golden Rules of Provisioning

The Deadline Engine

Step 1	Prepare as per Companies Act 2013 on March 31
Step 2	Any extension requires prior RBI approval before approaching the ROC
Step 3	Even with extensions, submit unaudited proforma B/S to RBI with statutory returns

Finalisation: Strict 3-month window from the relevant date

The Provisioning Ledger

Rule 1: No Netting

Provisions must be disclosed separately — NEVER netted from income or against asset values.

Rule 2: Dual Heads

Two distinct P&L heads required:
(a) Bad & doubtful debts
(b) Depreciation in investments

Rule 3: No Appropriation

Provisions CANNOT be taken from general reserves — must be debited to P&L every year.

Ind AS Governance: Pillars of Board Responsibility

RBI Financial Statements Directions, 2025 — Board-Level Accountability

1 Business Models

Board-approved policies must document portfolios — crucial for Ind AS financial asset classification.

2 Sales Policy

Must frame and disclose a policy for sales out of amortised cost portfolios.

3 ECL Methodology

Board approves ECL computation. Strict Rule: No parameter changes allowed for profit smoothening.

4 Management Overlay

Any adjustment to model output must have documented rationale and mandatory ACB approval.

5 Default Definition

90-day rebuttable presumption. ACB must document justification for 90+ DPD accounts not treated as impaired.

The Parallel Engine: ECL vs. IRACP & Impairment Reserve

Applicable to Ind AS NBFCs — Dual computation mandatory

Ind AS 109 Engine

Calculates 'ECL Loss Allowance'

RBI IRACP Engine

Calculates 'Prudential Provisions'

ECL < IRACP?

Transfer DIFFERENCE

from net profit to the Impairment Reserve

⚠ CRITICAL WARNING

Impairment Reserve is strictly EXCLUDED from regulatory capital.
Zero withdrawals permitted without prior RBI permission.

Part 3:
Universal Disclosure Framework

Disclosure Baseline: Universal Presentation Rules

Four foundational rules applicable to ALL eligible NBFCs

1. The Triple Mandate

Disclosures must simultaneously comply with:
(1) RBI Financial Statements Directions, 2025
(2) Applicable Accounting Standards (Ind AS / AS)
(3) Other Applicable Laws

2. Comparative Anchors

Mandatory disclosure of previous period comparative information for ALL current period amounts — including relevant narrative text.

3. Omission of Nil Items

Line items can be omitted from templates ONLY IF they are nil in both current and previous years AND not applicable or permitted.

4. Template ≠ Permission

Mere inclusion of an activity in an RBI disclosure template does NOT grant the NBFC permission to undertake that activity.

Universal Disclosures: Portfolio Operations

Para 21 — Applicable to all eligible NBFCs

Para 21(1)

Gold & Silver Collateral

- Detailed 8-row loan movement table — consumption vs. income-generating loans
- 9-item collateral/auction table tracking unclaimed gold, recovery %, sister concern auction participation

Para 21(2) | From Oct 2025

Project Finance

- Quarterly reporting — effective October 2025
- Tracks projects sanctioned, DCCO extensions, resolution plan statuses, cost overruns

Para 21(3) | From Apr 2026

Non-Fund Based Credit Facilities

- Effective April 2026
- Splits exposures: Secured vs. Unsecured — tracks outstanding guarantees (India vs. Outside India)

Universal Disclosures: Risk Transfer & Restructuring

Three key off-balance-sheet disclosure requirements

Co-Lending Arrangements (CLA)	Mandatory website listing of all active co-lending partners Notes must show: quantum, weighted average ROI, sectors, Default Loss Guarantee (DLG) details
Securitisation	Outstanding amount of securitised assets as per books of the SPE (Special Purpose Entities) Exposure to own securitization and third party, additional top up, investor complaints separately
Loan Transfers & Restructuring	Transfers: Quarterly disclosures on standard and stressed loans transferred/acquired Restructuring: Detailed 7-row movement table covering CDR, SME & other mechanisms across all asset classifications

Universal Disclosures:

Three key off-balance-sheet disclosure requirements

Exposure	Exposure to Real Estate Sectors, Capital Markets, Sectoral Exposure, Intra group Exposure Unrelated Foreign Currency Exposure, Related Party Disclosure
Disclosure	Disclosure of complaints, Tope Five Grounds of Complaints, Currency Futures, Liquidity,
Comparison between IRACP and Impairment	Comparison IRACP & Impairment allowance made under IND As 109

Part 4:
ML/UL Advanced Requirements & Auditor's Role

ML/UL Upgrade: Advanced Financial Mechanics

Additional requirements for Middle Layer and Upper Layer NBFCs

ML & UL	**Asset Liability Management (ALM)** Granular maturity pattern disclosure across exactly 10 Time Buckets (1–7 days up to 5+ years). Applies to Deposits, Advances, Investments, Borrowings, and FCY assets/liabilities.
ML & UL	**Derivatives Profiling** FRA/Interest Rate Swaps — notional principal, MTM, fair value disclosure. Qualitative & quantitative risk exposures (hedging vs. non-hedging positions).
Base+	**Unsecured Advances Caution** Loans secured only by intangible project collateral (rights/licences) must be classified as unsecured but disclosed under a separate head in the notes. **Single /Group Borrower Limit exposure**

ML/UL Upgrade: Governance & Regulatory Triggers

Mandatory disclosure triggers for Middle Layer & Upper Layer NBFCs

⚠ The Divergence Threshold

Mandatory table triggered by RBI inspection findings if:
(a) Additional provisioning recommended > 5% of PBT, OR (b) Additional Gross NPAs identified > 5% of reported Gross NPAs.
Requires a 12-row reconciliation table adjusting reported PAT against RBI-assessed PAT.

⚠ Corporate Governance

Board composition, DINs, remuneration, committee details must be disclosed. Any penalties/strictures from regulators and Companies Act 2013 non-compliance must be explicitly stated in the financial statements.

⚠ Covenant Breaches

All instances of covenant breach on loans availed or debt securities issued MUST be explicitly disclosed in the financial statements. Zero tolerance — no exceptions permitted.

ML/UL Upgrade: Governance & Regulatory Triggers

Mandatory disclosure triggers for Middle Layer & Upper Layer NBFCs

Additional Disclosure
• Penalties & Strictures • Non Compliance with Companies Act • Management Discussion and analysis report • Registration from other financial sector • Disclosure of rating • Remuneration of Directors • Revenue Recognition • Provisions & Contingencies • Draw down from Reserves • Concentration of Deposits, Advances, exposures and NPA • Overseas Assets • Off Balance sheet SPVs sponsored • Off Balance sheet exposures and structured products • Disclosure on Liquidity Coverage ratio • Currency Options • LODR

Statutory Auditor's Role & DNBS 10 (SAC)

Key responsibilities under RBI Master Directions — Auditor's Report Directions, 2016

Auditor's Duties

- Additional Report to Board — PBC, NOF, public deposits, prudential norms compliance
- Exception/Qualified Report to RBI Regional Office — for non-compliance & unfavorable statements
- SAC (DNBS 10) via XBRL — within 1 month of B/S finalization, not later than December 30
- File applicable RBI XBRL returns as per NBFC category

DNBS 10 — SAC Key Disclosures

1. Net Owned Funds / Total & Net Assets
2. Asset-Income Pattern (PBC test)
3. Registration with Credit Information Companies
4. Transfer of Net Profits to Special Reserve Fund (20%)
5. Gross NPA / Net NPA
6. Eligibility to hold Certificate of Registration (CoR)
7. Exposure to Capital Market / Real Estate
8. CRAR / Tier I / Tier II Capital (where applicable)
9. Change of Management / Shareholding / Address
10. Exception Report — sharing with Regional Office

The Statutory Auditor's Diagnostic Checklist

Pre-sign-off verification — three critical domains

Applicability & B/S Setup

- ✓ Scale-Based Layer accurately mapped
- ✓ Provisions kept gross — no netting applied
- ✓ Ind AS models documented, ACB overlays approved
- ✓ B/S prepared as per Companies Act 2013 on March 31

Impairment & Disclosures

- ✓ IRACP parallel engine verified
- ✓ Impairment Reserve created & excluded from regulatory capital
- ✓ RPT matrix separates Directors/Relatives from other KMPs
- ✓ Comparative figures disclosed for all current period amounts

ML/UL & Consolidation

- ✓ 5% Divergence threshold tested against RBI inspection report
- ✓ Covenant breaches cross-verified and explicitly disclosed
- ✓ All subsidiaries (domestic & foreign) consolidated in CFS
- ✓ Omission of any subsidiary — reported in Auditor's Report

Key Takeaways & Action Points

What every NBFC Board, CFO, Compliance Officer and Auditor must do now

Identify Your Layer

Map your NBFC to the correct Scale-Based Regulation layer. This determines every disclosure and governance obligation that applies.

Review Balance Sheet Format

Ensure B/S follows Annex I architecture. Provisions gross, dual heads maintained. Extensions need prior RBI approval.

Validate ECL & IRACP

Run both engines in parallel. Fund the Impairment Reserve if ECL < IRACP. Document all management overlays with ACB sign-off.

Activate New Disclosures

Project Finance (Oct 2025), CLA (Jan 2026), Non-Fund Based (Apr 2026). Build data systems now — deadlines are live.

Auditor Diagnostic Check

Verify: layer mapping, provisioning rules, impairment reserve, RPT matrix separation, consolidation completeness, covenant disclosures.

Upper Layer — Act Now

Draw Board-approved roadmap to listing. Use SEBI LODR 2015 as reference for corporate governance disclosures immediately.

Annexure: RBI NBFC Disclosure Tables

RBI NBFC Disclosures.xlsx

RBI NBFC Disclosures – (as per RBI Directions, 2025)

Sheet: Index

Sr	Disclosure / Section	Sheet Name	PDF Page (reference)	Frequency / Notes
1	C.1(1) Loans against gold & silver collateral – Table (i) and (ii)	C1_01_GoldSilver	10–12	Annual (table format)
2	C.1(2) Project finance disclosure (quarterly table)	C1_02_ProjectFinance	12–13	Quarterly
3	C.1(3) NFB Credit Facilities (secured/unsecured current & previous)	C1_03_NFB	13–14	Annual
4	C.1(5) Securitisation disclosures (table)	C1_05_Securitisation	15–16	Annual (separate STC and non-STC tables)
5	C.1(6) Transfer of stressed loans (tables)	C1_06_LoanTransfer	17–18	Quarterly
6	C.1(15) IRACP vs Ind AS 109 provisioning comparison (table)	C1_15_IRACP_vs_IndAS	31	Annual (Ind AS NBFCs)
7	C.1(23) LCR Disclosure Template (table)	C1_23_LCR	44	Annual/periodic as applicable
8	C.2(2) Capital disclosure (table)	C2_02_Capital	32	Annual (NBFC-ML/UL)
9	C.2(3) Investments disclosure (table)	C2_03_Investments	32–33	Annual (NBFC-ML/UL)
10	C.2(7) Corporate Governance tables (Board, Board changes, Committees, GBMs)	C2_07_CorpGov	37–38	Annual (NBFC-ML/UL)
11	C.2(9) Divergence in asset classification & provisioning (table)	C2_09_Divergence	39–40	Conditional (when thresholds met)
12	Annex I – Schedule to Balance Sheet (template)	AnnexI_Schedule	49–51	To be appended to Balance Sheet

Thank You

Questions & Discussion

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