RBI Guidelines on Special Liquidity Scheme

July 2, 2020

The government has approved a special liquidity scheme for non-banking finance companies (NBFCs) and housing finance companies (HFCs) to improve their liquidity position in order to avoid any potential systemic risks to the financial sector. RBI laid out eligibility criteria for such special liquidity schemes and it includes registered **NBFCs, micro-finance institutions (MFIs) and HFCs** under respective laws.

RBI Guidelines

- **CRAR** (Capital to Risk-weighted Assets Ratio) of NBFCs/HFCs should not be below the regulatory minimum of 15% and 12%, respectively as on March 31, 2019, and their **net non-performing assets** should not be more than 6%.
- These companies should have made **net profit in at least one of the last two preceding financial years** – 2017-18 and 2018-19 – and should not have been reported under **SMA-1 (Special Mention Account) or SMA-2 category** by any bank for their borrowings during the last one year prior to August 01, 2018.
- Under the government proposal, a special purpose vehicle (SPV) has been set up to manage a stressed asset fund where the **securities will be guaranteed by the government. The SPV would issue securities of up to ₹30,000 crore and these would be purchased by RBI.**
- State Bank of India's subsidiary **SBICAP has set up the special purpose vehicle** (SPV) – SLS Trust to manage this operation. The **SPV will purchase the short-term papers** from eligible NBFCs/HFCs, who will **utilize the proceeds under this scheme only for the purpose of extinguishing existing liabilities.**

- They should be **rated investment grade** by a Sebi registered rating agency and should comply with the requirement of the SPV for an **appropriate level of collateral** from the entity which would be optional and to be decided by the SPV.
- The instruments will be **commercial papers (CPs) and non-convertible debentures (NCDs)** with a **residual maturity of not more than three months** and rated as investment grade.
- However, such a **facility will not be available for any paper issued after September 30, 2020** and the SPV would cease to make fresh purchases after September 30, 2020 and would recover all dues by December 31, 2020 or as may be modified subsequently under the scheme.