Revised liquidity risk management framework for NBFCs

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***Source**: Monthly Policy Review, PRS*

RBI issued final guidelines on the asset-liability management and liquidity coverage ratio framework for non-banking financial companies (NBFCs)

Aim of Liquidity risk management framework

The liquidity risk management framework aims to ensure adequate liquidity (NBFC's capacity to meet unexpected cash and collateral obligations without incurring unacceptable losses). This is done through high-quality liquid assets (assets that can be readily sold or converted to cash, or used as collateral to obtain funds in the situation of stress).

Existing framework

The existing framework includes:

- Governance measures (such as the composition of a risk management committee) and
- Maturity profiling (measuring cash flows at different time buckets), among other measures.

Liquidity Coverage Ratio

- The revised guidelines have also introduced the Liquidity Coverage Ratio (LCR) **as an added measure for liquidity risk management** for certain categories of NBFCs.
- **LCR is the ratio of the stock of high-quality liquid assets to the total cash outflows of the NBFC, for a**

period of 30 days.

- As per the guidelines, **all public deposit taking NBFCs and non-deposit taking (with an asset size of Rs 5,000 crore and above) will have to maintain a minimum LCR, in order to sustain acute liquidity stress scenarios (stress lasting for 30 days)**.

Minimum LCR requirements

Category I NBFCs

Category 1 NBFCs include all deposit-taking NBFCs and non-deposit taking with an asset size of Rs 10,000 crore and above.

Category 2 NBFCs

Category 2 NBFCs include non-deposit taking NBFCs with an asset size between Rs 5,000 crore and Rs 10,000 crore. (These requirements would be binding on the NBFCs from December 1, 2020.)