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NEWSLETTER

"You will either step forward into growth or you will step back into safety."

This Issue:

- The Nidhi (Amendment) Rules, 2022
- NBFC 'third party lending' set to come under auditors' scrutiny
- Revised regulatory framework for NBFCs

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NBFC 'third party lending' set to come under auditors' scrutiny

Various funding arrangements entered by Non-Banking Financial Companies (NBFCs) are set to come under scrutiny of auditors with effect from FY22 audit that starts in the next few weeks. The Ministry of Corporate Affairs (MCA) had tightened the rules for company audits last year mandating companies to provide a new declaration saying they have not lent money to an intermediary with an understanding that the intermediary will in turn loan, or fund, it to a third company.

The Reserve Bank of India (RBI) had issued circular on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs. Now RBI has issued detailed set of rules and relevant annexures for Non-Bank Financiers on Large Exposures, Capital Requirements, Lending to Directors and sought Additional Disclosures in their notes to accounts.

For details:

https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12292&Mode=0

https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12294&Mode=0

https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12296&Mode=0

https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12298&Mode=0

The Nidhi (Amendment) Rules, 2022

The Ministry of Corporate Affairs (MCA) vide its Notification dated April 19, 2022 has notified the Nidhi (Amendment) Rules, 2022 which shall come into force on the date of its publication in the Official Gazette. The said amendments inter-alia provide that:

i. No company, which has not complied rule 3A pertaining to Declaration of Nidhis, shall raise any deposit from its members or provide any loan to its members under the provisions of these rules from the date of such non-compliance, or from the date of the commencement of the above said rules, or the date of rejection of the application in Form NDH-4, whichever is later. Further, if any deposit raised by a company after the date of noncompliance, the said deposit shall be deemed to have been raised in pursuance of Acceptance of Deposits by Companies (Chapter V). (Insertion: Fourth and Fifth Proviso to Rule 3A)

ii. Public company desirous to be declared as a Nidhi shall apply, in Form NDH-4, within a period of one hundred twenty days of its incorporation for declaration as Nidhi, if it fulfils the following conditions, namely:-(I) it has not less than two hundred members; and (II) it has Net Owned Funds of twenty lakh rupees or more etc. (Insertion: Rule 3B)

iii. A Nidhi shall be a public company and shall have a minimum paid up equity share capital of ten lakh rupees and shall comply with this requirement within a period of eighteen months of commencement of amendment rules. [Substitution: Rule 4(1)]

iv. Under General Restrictions and Prohibitions- no Nidhi shall acquire or purchase securities of any other company or control the composition of the Board of Directors of any other company in any manner whatsoever or enter into any arrangement for the change of its management. [Substitution: Rule 6(d)]

v. Every Nidhi shall maintain Net Owned Funds of not less than twenty lakh rupees or such higher amount as the Central Government may specify from time to time and shall comply with this requirement within a period of eighteen months of commencement of amendment rules. (Substitution: Rule 9)