

## भारतीय रिज़र्व बैंक \_RESERVE BANK OF INDIA



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March 21, 2025

Dear Sir/Madam,

### Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purposes

### Please refer to:

- a) Paragraphs 5.1.25 and 107.2 of the <u>Master Direction Reserve Bank of India</u> (Non-Banking Financial Company (NBFC) – Scale Based Regulation) Directions, 2023 - (definition of Owned Fund and Common Equity Tier 1 (CET 1) capital)
- b) Paragraph 4.1.28 of the <u>Master Direction Non-Banking Financial Company Housing Finance Company (HFC) (Reserve Bank) Directions, 2021</u> (*definition of Owned Fund*)
- c) Paragraph 3.(1)(xxii) of the <u>Core Investment Companies (Reserve Bank)</u>

  <u>Directions, 2016</u> (*definition of Owned Fund*)
- d) Paragraph 3(a)(xxv) of the Mortgage Guarantee Companies (Reserve Bank)

  <u>Directions</u>, 2016 (definition of Owned Fund)
- e) Paragraph 3.1(xi) of the <u>Master Direction Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024</u> (definition of Owned Fund)
- f) Paragraph 3(iv) of the <u>Master Direction Standalone Primary Dealers (Reserve</u>

  <u>Bank) Directions, 2016</u> (*definition of Tier 1 capital*)

The instructions cited above require deducting the book value of intangible assets while calculating Owned Fund/ CET 1 capital/ Tier 1 capital.

2. In terms of Indian Accounting Standard (Ind AS) 116 - Leases, most leases will be reflected on a lessee's balance sheet as an obligation to make lease payments (a liability) and a related ROU asset (an asset). We have received references from various NBFCs (in their capacity as lessees) on the treatment of ROU assets for calculation of regulatory capital/ Owned Fund.

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3. In this regard, it is clarified that regulated entities shall not be required to deduct an ROU asset (created in terms of Ind AS 116-Leases) from Owned Fund/ CET 1 capital/ Tier 1 capital (as the case may be), provided the underlying asset being taken on lease is a tangible asset. The ROU asset shall be risk-weighted at 100 per cent, consistent with the risk weight applied historically to the owned tangible assets.

4. The above revisions/changes have been incorporated in the respective Master Directions, as <u>detailed</u> in Annexure 1 to Annexure to 6 below.

### **Applicability**

5. This circular is applicable, with immediate effect, to all NBFCs (including HFCs) and Asset Reconstruction Companies implementing Companies (Indian Accounting Standards) Rules, 2015.

Yours faithfully,

(Usha Janakiraman) Chief General Manager-in-Charge

# <u>Master Direction - Reserve Bank of India (Non-Banking Financial Company (NBFC) – Scale Based Regulation) Directions, 2023</u>

Extant paragraph	Amended paragraph	
5.1.25 "Owned Fund" means aggregate of	5.1.25 "Owned Fund" means aggregate of	
(i) paid up equity capital,	(i) paid up equity capital,	
(ii) preference shares which are	(ii) preference shares which are	
compulsorily convertible into equity,	compulsorily convertible into equity,	
(iii) free reserves,	(iii) free reserves,	
(iv) balance in share premium account and	(iv) balance in share premium account and	
(v) capital reserves representing surplus	(v) capital reserves representing surplus	
arising out of sale proceeds of asset,	arising out of sale proceeds of asset,	
excluding reserves created by revaluation of	excluding reserves created by revaluation of	
asset;	asset;	
as reduced by	as reduced by	
(vi) accumulated loss balance,	(vi) accumulated loss balance,	
(vii) book value of intangible assets and	(vii) book value of intangible assets and	
(viii) deferred revenue expenditure, if any.	(viii) deferred revenue expenditure, if any.	
	NBFCs shall not be required to deduct a	
	Right-of-Use (ROU) asset (created in terms	
	of Ind AS 116-Leases) from Owned Fund,	
	provided the underlying asset being taken	
	on lease is a tangible asset.	
107.2	107.2	
(ix) The following regulatory	(ix) The following regulatory	
adjustments/deductions shall be applied in	adjustments/deductions shall be applied in	
the calculation of CET 1 capital [i.e., to be	the calculation of CET 1 capital [i.e., to be	
deducted from the sum of items (i) to (viii)]:	deducted from the sum of items (i) to (viii)]:	
(a) Goodwill and other intangible assets:	(a) Goodwill and other intangible assets:	
(i) Goodwill and all other intangible assets	(i) Goodwill and all other intangible assets	
should be deducted from CET 1 capital.	should be deducted from CET 1 capital.	
(ii) The full amount of the intangible assets is	(ii) The full amount of the intangible assets is	
to be deducted net of any associated	to be deducted net of any associated	
deferred tax liabilities which would be	deferred tax liabilities which would be	
extinguished if the intangible assets become	extinguished if the intangible assets become	

### **Extant paragraph** Amended paragraph impaired or derecognized under the relevant impaired or derecognized under the relevant accounting standards. For this purpose, the accounting standards. For this purpose, the definition of intangible assets would be in definition of intangible assets would be in accordance with the relevant accounting accordance with the relevant accounting standards. Losses in the current period and standards. Losses in the current period and those brought forward from previous periods those brought forward from previous periods should also be deducted from CET 1 capital, should also be deducted from CET 1 capital, if not already deducted. if not already deducted. NBFCs shall not be required to deduct an ROU asset (created in terms of Ind AS 116-Leases) from CET 1 capital, provided the underlying asset being taken on lease is a tangible asset. 84. Treatment to On-Balance Sheet 84. Treatment to On-Balance Sheet Assets for Capital Ratio Assets for Capital Ratio Sr. Weighted risk Percentage Sr. Weighted risk Percentage no assets - Onno assets - On-Weight Weight balance Sheet balance Sheet items items Other Assets Other Assets (5) (5) 100 Others (including 100 (d) Others (to be (d) specified) ROU assets)

# <u>Master Direction - Non-Banking Financial Company - Housing Finance Company</u> (Reserve Bank) <u>Directions</u>, 2021

Extant paragraph			Amended paragraph				
4.1.28 "Owned Fund" means paid up equity			4.1.28 "Owned Fund" means paid up equity				
capital, preference shares which are			capital, preference shares which are				
ulsor	ily convertible into	equity, free	cor	npı	ulsor	ily convertible into	equity, free
/es	including balance	in share	res	erv	es	including balance	in share
um	account and capit	tal reserves	premium account and capital reserves				
sentir	ng surplus arising	out of sale	rep	res	entir	ng surplus arising	out of sale
eds	of asset, excludir	ng reserves	pro	ce	eds	of asset, excluding	ng reserves
created by revaluation of asset, as reduced			cre	created by revaluation of asset, as reduced			
cumu	lated loss balance, b	oook value of	by a	by accumulated loss balance, book value of			
jible	assets and deferr	ed revenue	inta	ang	ible	assets and deferr	red revenue
ditur	e, if any.		exp	expenditure, if any.			
			HFCs shall not be required to deduct a				
			Right-of-Use (ROU) asset (created in terms				
			of Ind AS 116-Leases) from Owned Fund,				
			provided the underlying asset being taken				
			<u>on</u>	lea	se is	a tangible asset.	
On balance sheet assets:			<u>On</u>	ba	lanc	e sheet assets:	
6.2		6.2					
	Weighted risk	%	S	r.		Weighted risk	%
	assets - On-	Weight	n	o		assets - On-	Weight
	balance Sheet					balance Sheet	
	items					items	
	Other Assets		(6	)		Other Assets	
(d)	Others (to be	100			(d)	Others (including	100
	specified)					ROU assets)	
	ulsori ves um sentir eds ed by cumu gible aditur	3 "Owned Fund" means pall, preference shares ulsorily convertible into ves including balance um account and capit senting surplus arising eds of asset, excluding ed by revaluation of asset cumulated loss balance, but it is a same and deferred the compact of the	8 "Owned Fund" means paid up equity al, preference shares which are alsorily convertible into equity, free wes including balance in share aum account and capital reserves senting surplus arising out of sale eds of asset, excluding reserves and by revaluation of asset, as reduced cumulated loss balance, book value of gible assets and deferred revenue aditure, if any.  Weighted risk % assets - On- Weight balance Sheet items Other Assets  (d) Others (to be 100	3 "Owned Fund" means paid up equity all, preference shares which are culsorily convertible into equity, free ves including balance in share um account and capital reserves senting surplus arising out of sale eds of asset, excluding reserves ad by revaluation of asset, as reduced cumulated loss balance, book value of gible assets and deferred revenue aditure, if any.    Weighted risk	3 "Owned Fund" means paid up equity all, preference shares which are capital complete allsorily convertible into equity, free description in the provided provided assets and deferred revenue and assets and deferred revenue and assets.    Weighted risk assets - On-balance Sheet items   Other Assets	3 "Owned Fund" means paid up equity al, preference shares which are culsorily convertible into equity, free was including balance in share um account and capital reserves premium representing surplus arising out of sale eds of asset, excluding reserves and by revaluation of asset, as reduced cumulated loss balance, book value of gible assets and deferred revenue additure, if any.    Weighted risk assets - On- balance Sheet items   Other Assets	3 "Owned Fund" means paid up equity capital, preference shares which are culsorily convertible into equity, free ves including balance in share um account and capital reserves senting surplus arising out of sale eds of asset, excluding reserves ad by revaluation of asset, as reduced cumulated loss balance, book value of gible assets and deferred revenue editure, if any.  HFCs shall not be required Right-of-Use (ROU) asset (created by assets on lease is a tangible asset.  On balance sheet assets:  On balance sheet assets:  Other Assets  Other Assets  (d) Others (to be 100)  4.1.28 "Owned Fund" means p capital, preference shares compulsorily convertible into reserves including balance compulsorily convertible into reserves including balance premium account and capit representing surplus arising proceeds of asset, excluding created by revaluation of asset by accumulated loss balance, to intangible assets and deferred expenditure, if any.  HFCs shall not be required Right-of-Use (ROU) asset (created by revaluation of asset by accumulated loss balance, to intangible assets and deferred expenditure, if any.  HFCs shall not be required Right-of-Use (ROU) asset (created by revaluation of asset on lease is a tangible asset.  On balance sheet assets:  6.2  Sr. Weighted risk no assets - Onbalance Sheet items  (6) Other Assets

### Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016

### **Extant paragraph**

# 3.(1)(xxii) "owned funds" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

### Amended paragraph

3.(1)(xxii) "owned funds" means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.

### 8. On balance sheet assets

Weighted risk assets - On-Balance Sheet items	Percentage weight
(v) Other assets	
(d) Others (to be specified)	100

### 8. On balance sheet assets

Weighted risk assets - On-Balance Sheet items	Percentage weight
(v) Other assets	
(d) Others (including ROU	100
assets)	100

### Master Directions - Mortgage Guarantee Companies (Reserve Bank) Directions, 2016

# Extant paragraph 3(a)(xxv) "owned fund" means paid up equity capital, free reserves including contingency reserves maintained as per paragraph 18 of the Guidelines on Registration and Operations of Mortgage Guarantee Company, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any; Americance (3(a)(xxv) "owned capital, free reserves reserves maintaine Mortgage Guarantee Company, balance in share premium a representing surplus arising out of sale loss balance, book of asset, excluding reserves revaluation of asset loss balance, book value of intangible assets and deferred revenue expenditure, if any;

### 9. Capital Adequacy

On balance sheet assets

	Items of Assets - On- Balance Sheet Items			
(vi)	Other Assets			
(d)	Others	100		

### Amended paragraph

3(a)(xxv) "owned fund" means paid up equity capital, free reserves including contingency reserves maintained as per paragraph 18 of the Guidelines on Registration and Operations of Mortgage Guarantee Company, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

NBFCs shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset.

### 9. Capital Adequacy

On balance sheet assets

lte	Risk Weight % Age			
(vi)				
(d)	Others assets)	(including	ROU	100

# <u>Master Direction – Reserve Bank of India (Asset Reconstruction Companies)</u> <u>Directions, 2024</u>

	Extant paragraph	Amended paragraph		
	i) "Owned fund" means the aggregate	3.1 (xi) "Owned fund" means the aggregate		
of a.	paid up equity capital;	of a. paid up equity capital;		
b.		b. paid up preference capital, to the		
	extent it is compulsorily convertible	extent it is compulsorily convertible		
	into equity capital;	into equity capital;		
C.	free reserves (excluding revaluation	c. free reserves (excluding revaluation		
	reserve);	reserve);		
d.	credit balance in profit and loss	d. credit balance in profit and loss		
	account;	account;		
as re	duced by-	as reduced by-		
e.	the debit balance on the profit and	e. the debit balance on the profit and		
	loss account;	loss account;		
f.	miscellaneous expenditure (to the	f. miscellaneous expenditure (to the		
	extent not written off or adjusted);	extent not written off or adjusted);		
g.	book value of intangible assets;	g. book value of intangible assets;		
h.	under/ short provision against NPA/	h. under/ short provision against NPA/		
	diminution in value of investments;	diminution in value of investments;		
i.	over recognition of income, if any;	i. over recognition of income, if any;		
	and	and		
j.	other deductions required on account	j. other deductions required on account		
	of the items qualified by the auditors	of the items qualified by the auditors		
	in their report on the financial	in their report on the financial		
	statements.	statements.		
		NBFCs shall not be required to deduct a		
		Right-of-Use (ROU) asset (created in terms of		
		Ind AS 116-Leases) from Owned Fund,		
		provided the underlying asset being taken on		
		lease is a tangible asset.		
18. C	apital adequacy ratio:  On-balance sheet Risk	18. Capital adequacy ratio:  On-balance sheet Risk		
	items weight(%)	items weight(%)		
	(iv) All other assets 100	(iv) All other assets (including ROU asset)		

### Master Direction - Standalone Primary Dealers (Reserve Bank) Directions, 2016

		T .		
Extant paragrap	h	Amended paragraph		
3(iv) Tier-I capital means pa	aid-up capital,	3(iv) Tier-I capital means paid-up capital,		
statutory reserves and other	disclosed free	statutory reserves and other disclosed free		
reserves. Investment in subsid	diaries (where	reserves. Investment in subsidiaries (where		
applicable), intangible asse	ts, losses in	applicable), intangible assets*, losses in		
current accounting period,	deferred tax	current accounting period, deferred tax		
asset and losses brought	forward from	asset and losses brought forward from		
previous accounting perio	ods will be	previous accounting periods will be		
deducted from the Tier-I capit	al.	deducted from the Tier-I capital.		
		NBFCs shall not be required to deduct a		
		Right-of-Use (ROU) asset (created in terms		
		of Ind AS 116-Leases) from Owned Fund,		
		provided the underlying asset being taken		
		on lease is a tangible asset.		
Annex II		Annex II		
Capital Adequacy for Credit Risk		Capital Adequacy for Credit Risk		
Risk weights for calculation of CRAR		Risk weights for calculation of CRAR		
1. On-Balance Sheet Assets		1. On-Balance Sheet Assets		
Nature of asset/item	Percentage	Nature of asset/item Percentage		
	weight	weight		
(vi) Other assets		(vi) Other assets		
(d) Others (to be	Х	(d) Others (ROU 100		
specified and risk		assets)		
weight indicated				
as per counter				

party)