

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 Master Direction Reserve Bank of India (Non-Banking Financial Company (NBFC) Scale Based Regulation Directions, 2023 (definition of Owned Fund and Common Equity Tier 1 (CET 1) capital)
- Paragraph 4.1.28 of the Master Direction Non-Banking Financial Company -Housing Finance Company (HFC) (Reserve Bank) Directions, 2021 – (definition of Owned Fund)
- c) Paragraph 3.(1)(xxii) of the Core Investment Companies (Reserve Bank)
 Directions, 2016 (*definition of Owned Fund*)
- d) Paragraph 3(a)(xxv) of the Mortgage Guarantee Companies (Reserve Bank)
 Directions, 2016 (definition of Owned Fund)
- e) Paragraph 3.1(xi) of the Master Direction Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024 (*definition of Owned Fund*)
- f) Paragraph 3(iv) of the Master Direction -Standalone Primary Dealers (Reserve Bank) Directions, 2016 (*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

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various NBFCs (in their capacity as lessees) on the treatment of ROU assets for calculation of regulatory capital/ Owned Fund.

- 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 detailed 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

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

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			s 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 brou	those brought forward from previous periods		those brought forward from previous periods			
should als	should also be deducted from CET 1 capital,		shoul	d als	o be deducted from	CET 1 capital,
if not alrea	ady deducted.		if not	if not already deducted.		
			NBFC	Cs sh	all not be required	to deduct an
			ROU	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. Tre	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 - On-	Weight	no		assets - On-	Weight
	balance Sheet				balance Sheet	
	items				items	
(5)	Other Assets		(5)		Other Assets	
(d)	Others (to be	100		(d)	Others (including	100
	specified)				ROU assets)	
	1	<u> </u>				

Master Direction - Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 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				
compulsorily convertible into equity, free			comp	oulsor	ily convertible into	equity, free	
reserv	ves	including balance	e in share	reser	ves	including balance	in share
premi	um	account and capi	tal reserves	premium account and capital reserves			
repre	sentir	ng surplus arising	out of sale	representing surplus arising out of sale			
proce	eds	of asset, excluding	ng reserves	proce	eeds	of asset, excluding	ng reserves
created by revaluation of asset, as reduced			created by revaluation of asset, as reduced				
by accumulated loss balance, book value of			by ac	by accumulated loss balance, book value of			
intang	gible	assets and defer	red revenue	intan	gible	assets and defer	red revenue
expenditure, if any.		expe	nditur	e, 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					
				on lease is a tangible asset.			
On balance sheet assets:		On balance sheet assets:					
6.2				6.2			
Sr.		Weighted risk	%	Sr.		Weighted risk	%
no		assets - On-	Weight	no		assets - On-	Weight
		balance Sheet				balance Sheet	
		items				items	
(6)		Other Assets		(6)		Other Assets	
	(d)	Others (to be	100		(d)	Others (including	100
		specified)				ROU assets)	

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

Extant paragraph	Amended paragraph		
3.(1)(xxii) "owned funds" means paid up equity	3.(1)(xxii) "owned funds" means paid up equity		
capital, preference shares which are	capital, preference shares which are		
compulsorily convertible into equity, free	compulsorily convertible into equity, free		
reserves, balance in share premium account	reserves, balance in share premium account		
and capital reserves representing surplus	and 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, as reduced by accumulated loss	asset, as reduced by accumulated loss		
balance, book value of intangible assets and	balance, book value of intangible assets and		
deferred revenue expenditure, if any;	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	8. On balance sheet assets		
Weighted risk assets - Percentage On-Balance Sheet items weight	Weighted risk assets - Percentage On-Balance Sheet items weight		
(v) Other assets	(v) Other assets		
(d) Others (to be specified) 100	(d) Others (including ROU assets)		

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

Extant paragraph		Amended paragraph		
3(a)(xxv) "owned fund" means paid up		3(a)(xxv) "owned fund" means paid up equity		
equity capital, free reserves including		capital, free reserves including contingency		
contingency reserves maintair	ed as per	reserves maintained as per paragraph 18 of the		
paragraph 18 of the Guid	delines on	Guidelines on Registration and Operations of		
Registration and Operations of	f Mortgage	Mortgage Guarantee Company, balance in		
Guarantee Company, balance	e in share	share premium account and capital reserves		
premium account and capita	l reserves	representing surplus arising out of sale proceeds		
representing surplus arising of	out of sale	of asset, excluding reserves created by		
proceeds of asset, excluding	g reserves	revaluation of asset, as reduced by accumulated		
created by revaluation of asset,	as reduced	loss balance, book value of intangible assets		
by accumulated loss balance, bo	ook value of	and deferred revenue expenditure, if any;		
intangible assets and deferred revenue		NBFCs shall not be required to deduct a Right-		
expenditure, if any;		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.		
Capital Adequacy		9. Capital Adequacy		
On balance sheet assets		On balance sheet assets		
Items of Assets - On- Balance Sheet Items	Risk Weight % Age	Items of Assets - On-Balance Sheet Items Risk Weight % Age		
(vi) Other Assets		(vi) Other Assets		
(d) Others	100	(d) Others (including ROU 100		

Master Direction - Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024

Extant paragraph	Amended paragraph			
3.1 (xi) "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. paid up preference capital, to the	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 reduced 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 or			
40.0 "	lease is a tangible asset.			
18. Capital adequacy ratio: On-balance sheet Risk	18. Capital adequacy ratio: On-balance sheet Risk			
items weight(%)	items weight(%)			
(iv) All other assets 100	All other assets (iv) (including ROU 100			
	asset)			

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

Extant paragraph		oh .	Amended paragraph		
3(iv) Tier-I capital means paid-up capital,		aid-up capital,	3(iv) Tier-I capital means paid-up capital,		
statutory reserves and other disclosed free		disclosed free	statutory reserves and other disclosed free		
reserve	s. Investment in subsi	diaries (where	reserves. Investment in subsidiaries (where		
applicat	ole), intangible asse	ts, losses in	applicable), intangible assets*, losses in		
current	accounting period,	deferred tax	current accounting period, deferred tax		
asset a	and losses brought	forward from	asset and losses brought forward from		
previous	accounting perio	ods will be	previous accounting periods will be		
deducte	d 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	Annex II		
Capital	Capital Adequacy for Credit Risk		Capital Adequacy for Credit Risk		
Risk we	ights for calculation o	f CRAR	Risk weights for calculation of CRAR		
1. On-B	alance Sheet Assets		1. On-Balance Sheet Assets		
Nature	Nature of asset/item Percentage		Nature of asset/item Percentage		
		weight	weight		
(vi)	Other assets		(vi) Other assets		
(d)	Others (to be	X	(d) Others (ROU 100		
	specified and risk		assets)		
	weight indicated				
	as per counter				
	party)				