SHAH COMMITTEE RECOMMENDATIONS

The recommendations made by the working group on financial companies under the chairmanship of Dr. A. C. Shah popularly known as the Shah Committee recommendations. The salient recommendations made by the committee are as follows.

- Category wise classification of financial companies may be abolished and uniform regulations may be applied to all financial companies.

- Regulatory attention by the reserve bank may be confined to companies with net owned fund of Rs. 50 lakhs and above.

- Entry norms, viz., minimum net owned fund of Rs. 50 lakhs and a cooling period before accepting deposits, may be prescribed for new financial companies.

- The regulations may be directed to the asset side such as limit on credit concentration, prohibiting investments in undesirable activities, etc.

- Capital adequacy standards may be laid down based on risk assessment of assets and credit conversion factors for off-balance sheet items.

- The “exempted” category of deposits to be removed and all deposits to be treated alike. A clear distinction should be made between deposits and borrowings from banks/institutions and inter-corporate deposits should constitute a part of deposits.

- Net owned fund of a financial company should be redefined to exclude investments in other non-banking financial companies and subsidiaries as
also loans and advances to subsidiaries to the extent the aggregate of such investments, loans and advances exceed 10 percent of the amount of the paid up capital and free reserves of the company as reduced by the amount of accumulated balance of losses, deferred revenue expenditure and other intangible assets

- Aggregate amount of funds under portfolio management scheme may be related to the net owned fund of the company.

- Non-banking financial companies may be allowed to accept deposits for a period ranging between 12 months and 84 months. Furthermore, so long as interest rates on bank deposits are regulated, interest rates on deposits accepted by non-banking financial companies should be 2 or 3 percentage points more than those offered by commercial banks.

- Prudential norms for income recognition, transparency of accounts and provisions for bad and doubtful debts, may be prescribed.

- Auditors may be assigned more responsibilities with regard to compliance of regulations.

- The group had also made a few other recommendation such as formation of a self regulating organization, compulsory credit rating after 5 years, initiating public awareness programme for educating the depositors, etc the RBI has accepted these recommendation in principle and has made some amendments to its directions to NBFCs.