Exposure Norms

DBOD No. Dir. BC. 20/13.03.00/2002-03

August 20, 2002
Shravana 29, 1924(S)

Chief Executives of all Scheduled Commercial Banks
(excluding RRBs and LABs)

Dear Sir,

Master Circular – Exposure Norms

Please refer to the Master Circular DBOD.No. Dir.BC. 12/13.03.00/2001-02 dated 13th August 2001 consolidating the instructions/guidelines issued to banks till 30th June 2001 relating to Exposure Norms. The Master Circular has been suitably updated by incorporating the instructions issued up to 30th June 2002 and has been placed on the RBI website (http://www.rbi.org.in).

2. This Master Circular is a compilation of the instructions contained in the circulars issued by RBI on the above subject, which are operational as on the date of this circular.

Yours faithfully,

(M.R. Srinivasan)
Chief General Manager

Master Circular on Exposure Norms

1. General

As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the Reserve Bank of India has advised the banks to fix limits on their exposure to specific industry or sectors and has prescribed regulatory limits on banks exposure to individual and group borrowers in India and unsecured guarantees and unsecured advances. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against / investments in shares, debentures & bonds.

2. Credit Exposures to Individual/Group Borrowers

2.1 Ceilings

2.1.1 The exposure ceiling should be fixed in relation to bank's capital funds. Internationally, exposure ceilings are computed in relation to total capital as defined under capital adequacy standards (Tier I and Tier II Capital). Taking into account the best international practices, it has been decided to adopt the concept of capital funds as defined under capital adequacy standards for determining exposure ceiling uniformly both by domestic and foreign banks, effective from 31 March 2002. The exposure ceiling limits applicable from April 1, 2002 which is based on the capital funds in India as computed above would be 15 per cent of capital funds in case of single borrower and 40 percent in the case of a borrower group. Exposure to borrowers belonging to a group may exceed the exposure norm of 40 percent of the bank's capital funds by an additional 10 percent (i.e. up to 50 percent), provided the additional exposure is on account of extension of credit to all infrastructure projects.

The coverage under "infrastructure" would be the same as defined under section 10 (23G) of Income Tax Act, 1961. Accordingly, infrastructure would include sectors, such as power, roads, highways, bridges, ports, airports, rail system, water supply, irrigation, sanitation & sewerage system, telecommunication, housing, industrial park or any other public facility of similar nature as may be notified by CBDT from time to time.

2.1.2 Lending under Consortium Arrangements

The exposure limits will be applicable even in case of lending under consortium arrangements, wherever formalised.

2.2 EXEMPTIONS

2.2.1 Rehabilitation of Sick/Weak Industrial Units

The ceilings on single/group exposure limits would not be applicable to existing/additional credit facilities (including funding of interest and irregularities) granted to weak/sick industrial units under rehabilitation packages.

2.2.2 Food credit

Borrowers to whom limits are allocated directly by the Reserve Bank, for food credit, will be exempt from the ceiling.

2.3 Definitions

2.3.1 Exposure

Exposure shall include credit exposure (**funded** and **non-funded** credit limits) and investment exposure (including **underwriting** and **similar commitments**) as well as certain types of investments in companies. The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at exposure limit. However, in respect of non-funded credit limits, only 50 percent of such limits or outstandings, **whichever is higher**, need be taken into account for the purpose. *However loans and advances granted against the security of bank's own term deposits may be excluded from the purview of the exposure ceiling.*

(i) In line with international best practices, it has been decided that effective from April 1, 2003, non-fund based exposures should also be reckoned at 100 per cent of the limit or outstandings.

(ii) At present, derivative products such as Forward Rate Agreements (FRAs) and Interest Rate Swaps (IRSs) are also captured for computing exposure by applying the conversion factors to notional principal amounts as per the original exposure method prescribed in Annexures 1 and 2 of our circular MPD.BC. 187/07.01/279/1999-2000 dated July 7, 1999. It has been decided that, effective from April 1, 2003, banks should also include forward contracts in foreign exchange and other derivative products like currency swaps, options, etc. at their replacement cost value in determining individual/group borrower exposure. The methodology to be adopted by banks for arriving at the replacement cost value is being advised separately.

2.3.2 Credit exposure

Credit exposure comprises of the following elements:

(a) all types of funded and non-funded credit limits.

(b) facilities extended by way of equipment leasing, hire purchase finance and factoring services.

(cf. para (iii) of circular 10 at Appendix B).

(c) advances against shares, debentures, bonds, units of mutual funds, etc. to stock brokers, market makers.

(d) bank loan for financing promoters contributions.

(e) bridge loans against equity flows/issues.

(f) financing of Initial Public Offerings (IPOs).

2.3.3 Investments exposure

Investments exposure would comprises of the following elements:

(a) investments in shares and debentures of companies acquired through direct subscription, devolvement arising out of underwriting obligations or purchased from secondary markets or on conversion of debt into equity.

(b) investment in PSU bonds through direct subscription, devolvement arising out of underwriting obligations or purchase made in the secondary market.

(c) investments in Commercial Papers (CPs) issued by Corporate Bodies/PSUs.

The investment made by the banks in bonds and debentures of corporates which are guaranteed by a PFI[?] (as per list given in Annexure 1) will be treated as an exposure by the bank on the PFI and not on the corporate.

2.3.4 Capital Funds

Capital funds for the purpose will comprise of Tier I and Tier II capital as defined under capital adequacy standards.

2.3.5 In the case of ***Indian Banks***

Tier I Capital consists of

- ? Paid up capital, statutory reserves, and other disclosed free reserves, if any.
- ? Capital reserves representing surplus arising out of sale proceeds of assets.
- ? Less: equity investments in subsidiaries, intangible assets and losses in the current period as well as those brought forward from the previous years.
- ? In the case of public sector banks which have introduced Voluntary Retirement Scheme (VRS), in view of the extra-ordinary nature of the event, the VRS related Deferred Revenue Expenditure would not be reduced from Tier I capital.
- ? The infusion of capital either through domestic issue or overseas float, after the published balance sheet date will also be taken into account for determining the exposure ceiling. Other accretion to capital funds by way of quarterly profits etc. would not be eligible for determining the ceiling. Banks are also prohibited from taking exposure in excess of the ceiling in anticipation of capital at a future date.

While **Tier -II capital** consists of

- ? Undisclosed reserves and cumulative perpetual preference shares.
- ? Revaluation reserves (discounted at 55% for determining their value for inclusion in Tier-II capital).
- ? General Provision and loss reserves, general provisions on 'Standard Assets' and 'Investment Fluctuation Reserves' (subject to an overall ceiling of 1.25% of total risk weighted assets).
- ? Excess provision towards investments held in “Investment Fluctuation Reserve Account”.
- ? Hybrid Debt Capital Instruments and Subordinated Debt (subject to appropriate discount at rates depending on period to maturity).
- ? Subordinated Debt instruments eligible to be reckoned as Tier II capital will be limited to 50 percent of Tier I capital. However, in the case of public sector banks, the bonds issued to the VRS employees as a part of the compensation package (net of the un-amortised VRS Deferred Revenue expenditure) could be treated as Tier II capital subject to compliance with the terms and conditions stipulated in Master Circular dated 5 July 2002.
- ? Tier II elements should be limited to a maximum of 100 percent of total Tier I elements for the purpose of compliance with the norms.

2.3.6 In the case of ***Foreign banks*** operating in India

Tier-1 capital consists of the following:

? Interest Free funds from Head Office kept in separate account in Indian books to meet the capital adequacy norms.

? Statutory reserves kept in Indian books.

? Remittable surplus retained in Indian books which are not repatriable so long as the bank functions in India.

? Capital reserves representing surplus arising out of sale of assets in India held in a separate book and not repatriable so long as the bank functions in India.

? Interest free funds remitted from abroad for the purpose of acquisition of property and held in separate account in Indian books.

? The net credit balance, if any, in the inter-office account with Head Office/overseas branches **will not be reckoned** as capital funds. However, any debit balance in Head Office account will have to be set-off against the capital.

Tier-II capital

? To the extent relevant, elements of Tier -II capital as indicated in respect of Indian banks would be eligible. The foreign banks are allowed borrowings in foreign currency as subordinated debt. The total amount of HO borrowings in foreign currency will be at the discretion of the foreign bank. However, the amount eligible for inclusion in Tier II capital as subordinated debt will be subject to a maximum ceiling of 50% of the Tier I capital maintained in India.

? The elements of Tier I & Tier II capital do not include foreign currency loans granted to Indian parties.

2.3.7 Group

The concept of 'Group' and the task of identification of the borrowers belonging to specific industrial groups is left to the perception of the banks/financial institutions. Banks/financial institutions are generally aware of the basic constitution of their clientele for the purpose of regulating their exposure to risk assets. The group to which a particular borrowing unit belongs, may, therefore, be decided by them on the basis of the relevant information available with them, the guiding principle being commonality of management and effective control.

2.3.8 In the case of a split in the group, if the split is formalised, the splinter groups will be regarded as separate groups. If banks and financial institutions have doubts about the *bona fides* of the split, a reference may be made to RBI for its final view in the matter to preclude the possibility of a split being engineered in order to prevent coverage under the Group Approach.

2.4 Review

An annual review of the implementation of exposure management measures may be placed before the Board of Directors before the end of June and a copy each of such review may be furnished for information to the Chief General Manager, Department of Banking Operations and Development, Central Office, Reserve Bank of India, World Trade Centre, Mumbai and to the concerned Regional Offices of the Department.

3. Credit Exposure to Industry and Certain Sectors

3.1 Internal Exposure Limits

3.1.1 Fixing of sectoral limits

Apart from limiting the exposures to individual or Group of borrowers, as indicated above, the banks may also consider fixing internal limits for aggregate commitments to specific sectors e.g. textiles, jute, tea, etc. so that the exposures are evenly spread over various sectors. These limits could be fixed by the banks having regard to the performance of different sectors and the risks perceived. The limits so fixed may be reviewed periodically and revised, as necessary.

Banks with large exposure to corporates should monitor and review on a monthly basis through a suitable reporting system, the unhedged portion of foreign currency exposures of corporates with relatively large foreign currency exposures.

3.1.2 Exposure to Real Estate

Banks should frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single/group exposure limits for such loans, margins, security, repayment schedule and availability of supplementary finance and the policy should be approved by the bank's Board.

3.1.3 While framing the bank's policy, the guidelines issued by the Reserve Bank should be taken into account. Banks should ensure that the bank credit is used for productive construction activity and not for activity connected with speculation in real estate.

3.2 Exposure to Leasing, Hire Purchase and Factoring Services

3.2.1 Banks should maintain a balanced portfolio of equipment leasing, hire purchase and factoring services vis-à-vis the aggregate credit. Their exposure to each of these activities should not exceed 10 percent of total advances.

3.3 Exposure to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad

3.3.1 Banks are allowed to extend credit/non-credit facilities (viz. letters of credit and guarantees) to Indian Joint Ventures/Wholly-owned Subsidiaries abroad. Banks are also permitted to provide at their discretion, buyer's credit/acceptance finance to overseas parties for facilitating export of goods & services from India.

3.3.2 The above exposure will, however, be subject to a limit of 5 percent of the unimpaired Tier I capital. Higher limits could be considered by the Reserve Bank on merits.

3.3.3 While extending such facilities, banks will have to, *inter alia*, comply with Section 25 of the Banking Regulation Act, 1949, in terms of which the assets in India of every banking company at the close of business on the last Friday of every quarter shall not be less than 75 percent of its demand and time liabilities in India. In other words, aggregate assets outside India should not exceed 25 percent of the bank's demand and time liabilities in India.

3.3.4 The banks should also comply with all existing safeguards/prudential guidelines relating to capital adequacy, and exposure norms indicated in paragraph 2.1, ibid.

3.4 Banks’ exposure to the Capital Markets

The detailed instructions on Bank Finance against Shares and Debentures are given separately in the Master circular on Loans and Advances against shares. The salient features are given below for ready reference.

3.4.1 Statutory Limit on Shareholding in Companies

In terms of Section 19(2) of the Banking Regulation Act, 1949, no banking company shall hold shares in any company, whether as **pledgee**, **mortgagee** or **absolute owner**, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less, except as provided in sub-section (1) of Section 19 of the Act. Shares held in demat form should also be included for the purpose of determining the exposure limit. **This is an aggregate holding limit for each company**.While granting any advance against shares, underwriting an issue of shares, or acquiring any shares on investment account or even in lieu of debt of any company, these statutory provisions should be strictly observed.

3.4.2 Regulatory Limits

The bank's aggregate exposure to the capital markets covering **<u>direct investment</u>** by a bank in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; **<u>advances against</u>** shares to individuals for investment in equity shares (including IPOs), bonds and debentures, units of equity-oriented mutual funds etc and **<u>secured and unsecured advances</u>** to stockbrokers and guarantees issued on behalf of stockbrokers and market makers; should not exceed **5 per cent of their total outstanding advances (including Commercial Paper) as on March 31 of the previous year**. This ceiling of 5 per cent prescribed for investment in shares would apply to total exposure including both fund based and non-fund based to capital market in all forms. Within this overall ceiling, banks investment in shares, convertible bonds and debentures and units of equity oriented mutual funds should not exceed 20 percent of its networth. The banks are required to adhere this ceiling on an ongoing basis.

3.4.3 Advances against Shares to Individuals

Loans at all the offices of a bank, against the security of shares, debentures and PSU bonds to individuals, if held in physical form should not exceed the limit of Rs. 10 lakh per individual borrower (Rs 20 lakhs per individual borrower, if the securities are held in demat form). The maximum amount of finance that can be granted to an individual for financing his subscription to an Initial Public Offering (IPO) is Rs. 10 lakh. Finance extended by a bank for IPOs is also reckoned as an exposure to capital market and reckoned within 5% ceiling indicated in para 3.4.2 above . Advances against units of mutual funds including units of Unit-64 scheme would attract the quantum and margin requirements as applicable to advances against shares and debentures wherever stipulated.

3.4.4 Banks should formulate with the approval of their Boards the Lending Policy for grant of advances to individuals against shares, debentures, bonds keeping in view RBI guidelines. As a prudential measure, the banks may also consider laying down appropriate aggregate sub limits of such advances.

3.4.5 Advances against Shares to Stock Brokers and Market Makers

The banks are free to provide credit facilities to stockbrokers and market makers on the basis of their commercial judgment, within the policy framework approved by their Boards. However, in order to avoid any nexus emerging between inter-connected stock broking entities and banks, the Board of each bank should fix, within the overall ceiling of 5 per cent of their total outstanding advances (including Commercial Paper) as on March 31 of the previous year a sub-ceiling for total advances to –

i. all the stock brokers and market makers (both fund based and non-fund based, i.e. guarantees); and

ii. to any single stock broking entity, including its associates/ inter-connected companies.

3.4.6 Banks may extend finance to stockbrokers for margin trading in actively traded scrips forming part of the NSE Nifty and the BSE Sensex, within the overall ceiling of 5% prescribed for exposure of banks to capital market.

3.5 Bank Loans for Financing Promoters Contributions

3.5.1 Loans sanctioned to corporates against the security of shares (as far as possible demat shares) for meeting promoter's contribution to the equity of new companies in anticipation of raising resources, should be treated as bank's investments in shares which would thus come under the ceiling of 5 per cent of the bank's total outstanding advances (including Commercial Paper) as on March 31 of the previous year prescribed for bank's total exposure including both fund based and non-fund based to capital market in all forms.

3.5.2 These loans will also be subject to individual/group of borrowers **exposure norms** as well as the **statutory limit** on shareholding in companies detailed above.

3.5.3 Under the refinance scheme of Export Import Bank of India, (EXIM Bank) the banks may sanction term loans on merits for eligible Indian promoters for acquisition of equity in overseas joint ventures/ wholly owned subsidiaries, provided the term loans have been approved by the EXIM Bank for refinance.

3.6 Bridge Loans

3.6.1 Banks have been permitted to sanction bridge loans to companies for a period not exceeding one year against expected equity flows/issues. Such loans should be included within the ceiling of 5 per cent of the banks' total outstanding advances (including Commercial Paper) as on March 31 of the previous year prescribed for total exposure including both fund based and non-fund based to capital market in all forms.

3.6.2 Banks should formulate their own internal guidelines with the approval of their Board of Directors for grant of such loans, exercising due caution and attention to security for such loans.

3.6.3 Banks may also extend bridge loans against the expected proceeds of Non-Convertible Debentures, External Commercial Borrowings, Global Depository Receipts and/or funds in the nature of Foreign Direct Investments, provided the banks are satisfied that the borrowing company has already made firm arrangements for raising the aforesaid resources/funds.

3.7 Bank finance to employees to buy shares of their own companies

Banks may provide finance to employees of companies to buy shares of their own companies. The advance may be granted upto 90 percent of the purchase price of the shares but not exceeding Rs. 50,000/- or six months' salary of the employees, whichever is less.

4. Exposure norms for investments

4.1 Banks exposure to capital market as detailed in paragraph 3.4.2 above should be within the overall ceiling of 5 per cent of the banks total outstanding advances (including Commercial Paper) as on March 31 of the previous year. Within this overall ceiling, banks investment in shares, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 20 per cent of its net worth. The banks are required to adhere to the ceiling on an ongoing basis and should exercise care to see that the limit is not exceeded.

4.1.1 For the purpose of reckoning compliance with the ceiling for investments prescribed above, the following items are to be included –

- direct investment by a bank in equity shares, convertible bonds and debentures and units of equity oriented mutual funds the corpus of which is not exclusively invested in corporate debt.
- bank finance for financing promoter’s contribution towards equity capital of new companies.
- bridge loans to companies.

4.1.2 The investment ceiling exclude investment in -

- the subordinated debts of other banks.
- preference shares,
- non-convertible debentures/bonds of private corporate bodies,
- equities/bonds of All-India Financial Institutions[?]

  (as per list given in *Annexure 2*),
- bonds issued by Public Sector Undertakings,
- units of Mutual Funds under schemes where corpus is invested exclusively in debt instruments,
- venture capital including units of dedicated venture capital funds meant for Information Technology, and
- investments in Certificate of Deposits (CDs) of other banks/ financial institutions.

4.1.3 *However, all these categories of investments are to be taken into consideration for the purpose of arriving at the prudential norm of credit exposure for single borrower and group of borrowers as stipulated in paragraph 2.1.1 above.*

4.1.4 Banks Investment in the Bonds of a Corporate

For the purpose of calculation of exposure norm, investments made by the banks in bonds and debentures of corporates, which are guaranteed by a PFI[?] , as per list given in *Annexure 1*, will be treated as an exposure by the bank on the PFI and not on the corporate.

4.1.5 Guarantees issued by the PFI to the bonds of corporates will be treated as an exposure by the PFI to the corporates to the extent of 50 percent being a non-fund facility, whereas the exposure of the bank on the PFI guaranteeing the corporate bond will be 100 percent.The PFI before guaranteeing the bonds/debentures should, however, take into account the overall exposure of the guaranteed unit to the financial system.

4.1.6 Banks Investment in Subordinated Debt Instruments

A high level of cross holding of subordinated debt instruments (issued by banks and financial institutions to raise Tier II capital) among banks and financial institutions, does not necessarily lead to accretion of capital to the financial system. As such, a banks investment in Tier II bonds issued by other banks and financial institutions shall be permitted upto **10 percent** of the investing bank's total capital. The total capital for this purpose will be the same as that reckoned for the purpose of capital adequacy.

4.1.7 Banks Investment in Venture Capital

In order to encourage the flow of finance for venture capital, the banks investment in venture capital (including units of dedicated Venture Capital Funds meant for Information Technology) would be over and above the ceiling of 5 per cent of the banks total outstanding advances (including Commercial Paper) as on March 31 of the previous year. This would, however, be subject to the condition that the venture capital funds/ companies are registered with SEBI.

4.2 Underwriting of Corporate Shares and Debentures

Generally, there are demands on the banks for underwriting the issues of shares and debentures. In order to ensure that there is no over exposure to underwriting commitments to earn fees, the guidelines detailed below should be strictly adhered to:

? The statutory provision contained in Section 19(2) & (3) of the Banking Regulation Act, 1949 regarding holding of shares in any company as pledgee / mortgagee or absolute owner, should be strictly adhered to;

? The banks have to ensure that the shares/debentures including PSU equities and shares of other banks, Mutual Funds (the corpus of which is not exclusively invested in corporate debt instruments), the units of UTI subscribed and/or devolving on them as a part of their underwriting obligations in any particular year comply with the ceiling prescribed for the banks exposure to the capital markets.

? It may be noted that the limit placed is on the shares and debentures, that may be held in the banks own portfolio as a result of devolvement and not on the amount of underwriting that the banks may engage in. Normally, the amount of underwriting is a multiple of the amount which devolves finally.

? The underwriting exposure to any company which will include other funded and non-funded credit limits should not exceed 15 percent of capital funds of the banks in the case of a single company and 40 percent (up to 50 percent, provided the additional credit exposure is on account of extension of credit to infrastructure project) in the case of group of companies.

? While taking up underwriting commitments, banks or their subsidiaries, should ensure that the aggregate of such commitments are included in the exposure limits fixed by the Reserve Bank.

? In the case of underwriting, the commitments under a single obligation should be fixed taking into account the owned funds of banks or their subsidiaries and the capacity to meet the commitments that may devolve and should not in any case exceed 15 percent of an issue.

- ? Banks should consider sub-underwriting for every underwritten issue so as to minimise chances of devolution on their own account. This is not mandatory. The need for and extent of such sub-underwriting is a matter of bank's discretion.
- ? As part of merchant banking activities, while taking up underwriting obligations, banks should carefully evaluate the proposals so as to ensure that the issues will have adequate public response and the prospect of devolution of such shares/debentures on the underwriting banks will be minimal.
- ? Banks should ensure that the portfolio is diversified and that no unduly large underwriting obligations are taken up in the shares and debentures of a company or a group of companies. Banks should make enquiries regarding the other underwriters and their capacity to fulfil the obligations.

Banks should formulate within the above parameters, their own internal guidelines as approved by their Boards of Directors on investments in corporate shares/debentures of companies or group of companies including norms to ensure that excessive investment in any single company is avoided and that due attention is given to the maturity structure and quality of such investments.

4.3 Prohibitions on underwriting operations

4.3.1 Banks should not underwrite issue of Commercial Paper by any Company, Primary Dealer or Satellite Dealer.

4.3.2 Banks should not extend Revolving Underwriting Facility to short-term Floating Rate Notes/Bonds or debentures issued by corporate entities.

4.3.3 An annual review covering the underwriting operations taken up during the year, with company-wise details of such operations, the shares/debentures devolved on the banks, the loss (or expected loss) from unloading the devolved shares/debentures indicating the face-value and market value thereof, the commission earned, etc. may be placed before their Boards of Directors within 2 months of the close of the fiscal year.

4.4 Underwriting of bonds of Public Sector Undertakings

The banks can play a useful role in relation to issue of bonds by Public Sector Undertakings (PSUs) by underwriting a part of these issues. Banks should subject the proposals for underwriting to proper scrutiny having regard to all the relevant factors and accept such commitments only on well reasoned commercial considerations with the approval of the appropriate authority.

The banks should formulate their own internal guidelines as approved by their Boards of Directors on investments in and underwriting of PSU bonds, including norms to ensure that excessive investment in any single PSU is avoided and that due attention is given to the maturity structure of such investments. Banks would also need to take into account that such investments are subject to risk weight and necessary depreciation has to be fully provided for.Such investments in PSU bonds including shares and debentures and subscription to Commercial Papers of PSUs should be reckoned for the purpose of arriving at prudential norms of credit exposure for single borrower and group of borrowers.

Banks should undertake an annual review of the underwriting operations relating to bonds of the public sector undertakings, with PSU-wise details of such operations, bonds devolved on the banks, the loss (or expected loss) from unloading the devolved bonds indicating the face-value and market value thereof, the commission earned, etc.

and place the same to their Boards of Directors within two months from the close of the fiscal year.

With a view to enabling the banks to deploy their surplus funds more remuneratively, the banks will have the freedom to acquire PSU bonds including through underwriting devolvements **without any ceiling**.

4.5 'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.

4.5.1 'Safety Net' Schemes

Reserve Bank had observed that some banks/their subsidiaries were providing buy-back facilities under the name of ‘Safety Net’ Schemes in respect of certain public issues as part of their merchant banking activities. Under such schemes, large exposures are assumed by way of commitments to buy the relative securities from the original investors at any time during a stipulated period at a price determined at the time of issue, irrespective of the prevailing market price. In some cases, such schemes were offered *suo motto* without any request from the company whose issues are supported under the schemes. Apparently, there was no undertaking in such cases from the issuers to buy the securities. There is also no income commensurate with the risk of loss built into these schemes, as the investor will take recourse to the facilities offered under the schemes only when the market value of the securities falls below the pre-determined price.

Banks/their subsidiaries have therefore been advised that they should refrain from offering such ‘Safety Net’ facilities by whatever name called.

4.5.2 Provision of buy back facilities

In some cases, the issuers provide buy-back facilities to original investors upto Rs. 40,000/- in respect of non-convertible debentures after a lock-in-period of one year to provide liquidity to debentures issued by them. If, at the request of the issuers, the banks or their subsidiaries find it necessary to provide additional facilities to small investors subscribing to new issues, such buy-back arrangements **should not entail commitments to buy the securities at pre-determined prices**. Prices should be determined from time to time, keeping in view the prevailing stock market prices for the securities. **Commitments should also be limited to a moderate proportion of the total issue in terms of the amount and should not exceed 20 percent of the owned funds of the banks/their subsidiaries**. These commitments will also be subject to the overall exposure limits which have been or may be prescribed from time to time.

5. Limits on exposure to unsecured guarantees and unsecured advances

Banks have to limit their commitment by way of unsecured guarantees in such a manner that 20 percent of the bank’s outstanding unsecured guarantees plus the total of outstanding unsecured advances do not exceed 15 percent of total outstanding advances. Guarantees counter-guaranteed by another bank need not be taken into account for the purpose of the norm. The detailed instructions in this regard are given in the Master circular on guarantees and co-acceptances.

Annexure 1

Master Circular
Exposure Norms

List of All-India Financial Institutions

(*Counter party exposure and assignment of Risk weight- List of institutions guaranteeing bonds of corporates*)

[Vide paragraph 2.3.3 & 4.1.4]

1. Industrial Finance Corporation of India Ltd.
2. Industrial Development Bank of India
3. Industrial Investment Bank of India Ltd.
4. Tourism Finance Corporation of India Ltd.
5. Risk Capital and Technology Finance Corporation Ltd.
6. Technology Development and Information Company of India Ltd.
7. Power Finance Corporation Ltd.
8. National Housing Bank
9. Small Industries Development Bank of India
10. Rural Electrification Corporation Ltd.
11. Indian Railways Finance Corporation Ltd.
12. National Bank for Agriculture and Rural Development
13. Export Import Bank of India
14. Infrastructure Development Finance Company Ltd.
15. Housing and Urban Development Corporation Ltd.
16. Indian Renewable Energy Development Agency Ltd.

Master Circular
Exposure Norms

List of All-India Financial Institutions

(Investment in equity/bonds by banks- List of FIs whose instruments are exempted from the 5 % ceiling)

(Vide paragraph 4.1.2)

1. Industrial Finance Corporation of India Ltd. (IFCI)
2. Industrial Development Bank of India (IDBI)
3. Tourism Finance Corporation of India Ltd. (TFCI)
4. Risk Capital and Technology Finance Corporation Ltd. (RCTC)
5. Technology Development and Information Company of India Ltd. (TDICI)
6. National Housing Bank (NHB)
7. Small Industries Development Bank of India (SIDBI)
8. National Bank for Agriculture and Rural Development (NABARD)
9. Export Import Bank of India (EXIM Bank)
10. Industrial Investment Bank of India (IIBI)
11. Discount and Finance House of India Ltd. (DFHI)
12. Unit Trust of India (UTI)
13. Life Insurance Corporation of India (LIC)
14. General Insurance Corporation of India (GIC)
15. Securities Trading Corporation of India Ltd. (STCI)
16. Infrastructure Development Finance Company Ltd. (IDFC)

Appendix

Master Circular
EXPOSURE NORMS

A. List of Circulars consolidated by the Master Circular

No.	**Circular No. and Date**	**Subject**
1.	DBOD.No.Dir.BC. 6/13.07.05/02-03 dated July 22, 2002	Investment in equities/bonds issued by All India Financial Institutions.
2.	DBOD. BP.BC. 27/21.04.137/2001 dated September 22, 2001	Bank financing for margin trading.
3.	DBOD.BP.BC. 45/21.04.137/01-02 dated November 15, 2001	Bank financing for margin trading.
4.	DBOD.BP.BC.37/21.04.103/2001-02 dated October 27, 2001	Monetary and Credit Policy measures-unhedged foreign currency exposure of corporates.
5.	DBOD.BP.BC.47/21.03.54/2001-02 dated November 22,2001	Limit on credit exposure to Individual/group borrowers.
6.	DBOD No. BP.BC. 119/21.04.137/ 2000-01 dated 11.05.2001	Financing of Equities and Investment in Shares.
7.	DBOD.No.BP.1577/21.03.054/2000 dated 24.1.2000	Prudential Credit Exposure Limits.
8.	DBOD.No.Dir.BC.13/13.07.05/99 dated 23.2.1999	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
9.	DBOD.No.Dir.BC.2/13.07.05/99 dated 29.1.1999	Bridge Loans.
10.	DBOD.No.Dir.BC.78/13.07.05/98-99 dated 8.8.1998	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
11.	DBOD.No.Dir.BC.138/13.07.05/97-98 dated 21.10.1997	Bridge Loans.
12.	DBOD.No.BP.BC.99/21.03.054/97 dated 2.9.1997	Limit on Credit Exposure to Individual/Group Borrowers.
13.	DBOD.No.Dir.BC.60/13.07.05/97 dated 28.5.1997	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
14.	DBOD.No.Dir.BC.42/13.07.05/97 dated 15.4.1997	Investments in and Underwriting of Shares and Debentures of Corporate Bodies.
15.	DBOD.No.BP.BC.161/21.03.054/ 96 dated 19.12.1996	Limits on Credit Exposure to Individual/Group Borrowers - Advances against Security of Term Deposits.
16.	DBOD.No.Dir.BC.148/13.07.05/96 dated 18.11.1996	Investment in Bonds Issued by Public Sector Undertakings.

No.	**Circular No. and Date**	**Subject**
17.	DBOD.No.Dir.BC.145/13.07.05/96 dated 25.10.1996	Investment in Shares and Debentures of Corporate Bodies.
18.	DBOD.No.BP.BC.109/21.03.053/ 96 dated 9.8.1996	Certificate of Deposits (CDs) Scheme.
19.	DBOD.No.BP.BC.13/21.01.002/96 dated 8.2.1996	Capital Adequacy Measures.
20.	DBOD.No.FSC.BC.86/24.01.001/ 95-96 dated 17.8.1995	Commitments in respect of Underwriting, etc. Obligations.
21.	DBOD.No.Dir.BC.69/13.07.05/95 dated 28.6.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
22.	DBOD.No.Dir.BC.38/13.07.05/95 dated 4.4.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
23.	DBOD.IBS.BC.29/23.06.001/95 dated 20.3.1995	Deployment of Foreign Funds in Indian Business.
24.	DBOD.No.28/13.07.05/95 dated 10.3.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
25.	DBOD.No.Dir.BC.1/13.07.05-95 dated 6.1.1995	Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies.
26.	DBOD.No.Dir.BC.151/13.07.05/94 dated 28.12.1994	Investment in Equities/Bonds Issued by All-India Financial Institutions.
27.	DBOD.No.BP.BC.133/21.03.054/ 94 dated 11.11.1994	Ceiling on Credit Exposure to Individual/Group Borrowers - Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
28.	DBOD.No.524/23.61.001/94-95 dated 25.10.1994	Limits on Credit Exposure to Individual/Group of Borrowers.
29.	DBOD.No.Dir.BC.124/13.07.05/94 dated 22.10.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
30.	DBOD.No.BP.BC.97/21.01.023/94 dated 19.8.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
31.	DBOD.No.Dir.BC.61/13.07.05/94 dated 18.5.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
32.	DBOD.No.IBS.BC.52/23.01.001/ 94 dated 4.5.1994	Indian Investment in Foreign Ventures Financing Equity Participations.

No.	**Circular No. and Date**	**Subject**
33.	DBOD.No.BP.BC.36/21.03.054/ 94 dated 30.3.1994	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers - Limits on Credit Exposure to Individual/Group Borrowers.
34.	DBOD.No.Dir.BC.4/13.07.05-94 dated 25.1.1994	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
35.	DBOD.No.Dir.BC.3/13.07.05-94 dated 24.1.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
36.	DBOD.No.BP.BC.211/21.01.001-93 dated 28.12.1993	Restrictions on Credit to Certain Sectors - Real Estate Loans.
37.	DBOD.No.Dir.BC.176/13.07.05-93 dated 11.10.1993	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
38.	IECD.No.IRD.24/IR-A/90-91 dated 23.11.1990	Rehabilitation of Sick/Weak Industrial Units - Exemption of Individual Bank's Exposure from the Application of Existing Ceilings Prescribed Under.
39.	DBOD.No.FSC.BC.27/C.469-89 dated 29.9.1989	'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.
40.	DBOD.No.FSC.BC.26/C.469-89 dated 29.9.1989	Commitments in respect of Public Issues of Shares, Debentures, etc.
41.	DBODNo.BP.BC.132/66-89 dated 26.5.1989	Limits on Credit Exposures to Individual/Group of Borrowers.
42.	DBOD.No.Dir.BC.85/C.347(PSB)-89 dated 1.3.1989	Holdings of Corporate Shares & Debentures and Public Sector Bonds.
43.	DBOD.No.Dir.BC.153/C.347(PSB)-88 dated 18.6.1988	Investments in Holdings of Public Sector Bonds.
44.	DBOD.No.Dir.BC.106/C.96(S&D)-88 dated 17.3.1988	Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies.
45.	DBOD.No.Dir.BC.91/C.347(PSB)-88 dated 6.2.1988	Holdings of Corporate Shares & Debentures and Public Sector Bonds.
46.	DBOD.No.IBS.130/13-88 dated 20.1.1988	Financing of Indian Joint Ventures Abroad.
47.	DBOD.No.Dir.BC.21/C.347(PSB)-87 dated 11.8.1987	Investment in and Underwriting of Shares, Debentures and Public Sector Bonds.
48.	DBOD.No.Dir.BC.61/C.347(PSB)-87 dated 9.6.1987	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
49.	DBOD.No.Dir.BC.60/C.347(PSB)-87 dated 8.6.1987	Investment in and Underwriting of Shares, Debentures and Public Sector Bonds.

No.	**Circular No. and Date**	**Subject**
50.	DBOD.No.GC.BC.55/C.408C(P)-87 dated 28.5.1987	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
51.	DBOD.No.GC.BC.131/C.408C(P)-86 dated 25.11.1986	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.

B. List of Other Circulars where Instructions in so far as they relate to Exposure Norms have been dealt with

No.	**Circular No. and Date**	**Subject**	**Corresponding paragraph number in this Master Circular**
1.	DBOD.BP.BC. 2/21.01.002/ 02-03 dated July 5, 2002	Master Circular – Prudential Norms on capital adequacy.	2.3.4, 2.3.5 and 2.3.6
2.	IECD no.16/08.12.01/2001-02 dated February 20, 2002	Financing of infrastructure projects.	2.1
3.	DBOD No. BP.BC. 116/ 21.04.048/2000-01 dated 02.05.2001	Monetary and Credit Policy Measures.	2.1.1, 2.3.1
4.	DBOD.No.BP.BC.35/21.01.002/ 99 dated 24.4.1999	Monetary and Credit Policy Measures.	4.1.6, 4.1.7
5.	DBOD.No.BP.BC.121/21.04.124 / 99 dated 3.11.1999	Monetary and Credit Policy Measures.	2.1.1
6.	DBOD.No.IBS.BC.104/23.37.00 1/98-99 dated 12.11.1998	Extension of Credit/Non-Credit Facilities to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad and Extension of Buyer's Credit and Acceptance.	3.3
7.	DBOD.No.BP.BC.103/21.01.002 / 98 dated 31.10.1998	Monetary and Credit Policy Measures.	2.3.3, 4.1.4
8.	DBOD.No.Dir.BC.90/13.07.05/9 8 dated 28.8.1998	Bank Finance against Shares and Debentures - Master Circular.	3.4.1 3.4.2 3.4.3 3.4.4
9.	DBOD.No.Dir.BC.36/13.03.00/9 8 dated 29.4.1998	Monetary and Credit Policy Measures.	3.4.3
10.	DBOD.No.Dir.BC.43/13.07.05/9 7 dated 15.4.1997	Advances against Shares.	3.5.1
11.	IECD.No.13/08.12.01/97-98 dated 27.10.1997	Grant of Bridge Loan Facility by Banks.	3.6
12.	DBOD.No.IBS.BC.54/23.61.001/ 96 dated 18.4.1996	Limits on Credit Exposures to Individual/Group Borrowers.	2.3.6
13.	DBOD.No.FSC.BC.18/24.01.001 / 93-94 dated 19.2.1994	Equipment Leasing, Hire Purchase, Factoring, etc. Activities.	2.3.2(b), 3.2.1
14.	DBOD.No.Dir.BC.145/13.07.05/ 93 dated 30.7.1993	Underwriting Activity - Devolvement on Underwriters.	4.2
15.	D.O.IECD.No.2/CMD.GA/Gen/9 2-93 dated 4.7.1992	Group Approach.	2.3.8
16.	IECD.No.7/CMD.GA/GEN/91-92 dated 29.7.1991	Group Accounts.	2.3.7

No.	**Circular No. and Date**	**Subject**	**Corresponding paragraph number in this Master Circular**
17.	DBOD.No.Dir.BC.51/C.96(SD/PSB)-90 dated 26.11.1990	Holdings of Corporate Shares & Debentures and Public Sector Bonds.	4.4
18.	DBOD.No.Dir.BC.35/C.96(Z)-90 Dated 22.10.1990	Bank Guarantee Scheme.	5
19.	DBOD.No.Dir.BC.103/C.347(PSB)-89 dated 3.4.1989	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.	4.3.3
20.	DBOD.No.Sch.68/C.109-72 dated 31.7.1972	Bank Guarantee Scheme.	5
21.	DBOD.No.666/C.96/(Z)-67 dated 3.5.1967	Bank Guarantee Scheme.	5

[?] With the merger of ICICI Ltd. with ICICI Bank Ltd. effective from 30.03.2002, the entire liabilities of ICICI Ltd. have been taken over by ICICI Bank Ltd. As per the scheme of merger all loans and guarantee facilities to ICICI Ltd. provided by Government would be transferred to the merged entity. Similarly, the investments made in erstwhile ICICI Ltd. by banks would be treated outside the ceiling of 5% till redemption.

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