

## **Guidelines for issue of Commercial Paper(CP)**

IECD.No. 19 /08.15.01/2002-03

April 30, 2003

The Chairman and Managing Directors / Chief Executives of  
All Commercial Banks

Dear Sir,

### **Guidelines for issue of Commercial Paper(CP)**

Please refer to paragraph No. 99 of the Monetary and Credit Policy Statement for the year 2003-04 dated 29th April 2003, ( copy of the paragraph enclosed), indicating certain modifications to our earlier guidelines relating to provision of credit enhancement for CP issues. The relevant guidelines are modified as under:

2. In terms of para 18 of Annexure II to our circular No.IECD.2/08.15.01/2001-02 dated 23rd July 2001, banks and all-India financial institutions (FIs) have the flexibility to provide, for a CP issue, credit enhancement by way of stand-by assistance/credit, back-stop facility etc. based on their commercial judgement, subject to prudential norms as applicable and with specific approval of their Boards. The present guidelines do not provide for credit enhancement for a CP issue in the form of an unconditional and irrevocable guarantee to be given by non-bank entities such as a corporate.

3. In order to provide further flexibility to both issuers and investors in the CP market, it has been decided that non-bank entities including corporates may provide unconditional and irrevocable guarantee for credit enhancement for CP issue provided :

- (i) the issuer fulfils the eligibility criteria prescribed for issuance of CP;
- (ii) the guarantor has a credit rating at least one notch higher than the issuer by an approved credit rating agency and
- (iii) the offer document for CP properly discloses: the networth of the guarantor company, the names of the companies to which the guarantor has issued similar guarantees, the extent

of the guarantees offered by the guarantor company, and the conditions under which the guarantee will be invoked.

4. It is further advised that banks are allowed to invest in CPs guaranteed by non-bank entities provided their exposure remains within the regulatory ceiling as prescribed by RBI for unsecured exposures.

5. A copy of Notification No.IECD/1/08.15.01/2002-03 dated 30<sup>th</sup> April 2003 amending earlier Notification No. IECD/3/08.15.01/2001-02 dated 23<sup>rd</sup> July 2001 is enclosed.

6. Detailed guidelines on procedures and documentation in this regard will be issued by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

Yours faithfully,

[Smt. R.K. Makhija]  
Chief General Manager

Encl: as above

**Statement on Monetary and Credit Policy for the year 2003-04 (extract)**

**(d) Commercial Paper**

99. Banks and FIs have the flexibility to provide credit enhancement for a commercial paper (CP) issue by way of standby assistance/credit, back-stop facility etc., based on their commercial judgment subject to the prudential norms as applicable and with specific approval of their Boards. Further, the present guidelines do not provide for credit enhancement for a CP issue in the form of an unconditional and irrevocable guarantee to be given by non-bank entities such as a corporate. In order to provide further flexibility to both issuers and investors in the CP market, it is proposed that :

- ? Non-bank entities including corporates may provide unconditional and irrevocable guarantee for credit enhancement for CP issue as long as (i) the issuer fulfills the eligibility criteria prescribed for issuance of CP, (ii) the guarantor has at least one notch

higher credit rating than the issuer by an approved credit rating agency, (iii) the offer document for CP should properly disclose: the networth of the guarantor company; the names of the companies to which the guarantor has issued similar guarantees; the extent of the guarantees offered by the guarantor company and the conditions under which the guarantee will be invoked.

? Banks are allowed to invest in CP guaranteed by non-bank entities provided their exposure remains within the regulatory ceiling as prescribed by RBI for unsecured exposures.

Detailed guidelines on procedures and documentation in this regard will be issued by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

**Reserve Bank of India  
Industrial and Export Credit Department  
Central Office  
Mumbai- 400 001**

**Notification NO. IECD/ 1 /08.15.01/2002-03**

**Dated April 30, 2003**

In exercise of the powers conferred by Sections 45J, 45K, and 45L of Reserve Bank of India Act 1934 (2 of 1934) and all the powers enabling it in this behalf, the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, hereby directs that the "Guidelines for the Issue of Commercial Paper (CP)" issued vide Notification No. IECD/3/08.15.01/2001-02 dated 23<sup>rd</sup> July 2001 shall be further amended in the following manner with effect from 29<sup>th</sup> April 2003.

Paragraph 18 may be substituted by the following paragraph

**" Stand-by facility**

In view of CP being a 'stand alone' product, it would not be obligatory in any manner on the part of the banks and FIs to provide stand-by facility to the issuers of CP. Banks and FIs have, however, the flexibility to provide for a CP issue, credit enhancement by way of stand-by assistance/credit, back-stop facility etc. based on their commercial judgement, subject to prudential norms as applicable and with specific approval of their Boards. Non-bank entities

including corporates may also provide unconditional and irrevocable guarantee for credit enhancement for CP issue provided:

- i) the issuer fulfils the eligibility criteria prescribed for issuance of CP;
- ii) the guarantor has a credit rating at least one notch higher than the issuer given by an approved credit rating agency and
- iii) the offer document for CP properly discloses the networth of the guarantor company, the names of the companies to which the guarantor has issued similar guarantees, the extent of the guarantees offered by the guarantor company, and the conditions under which the guarantee will be invoked.

**(Y.S.P. Thorat)**  
**Executive Director**