भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2012-13/49
DBOD.FID.FIC.No.4/01.02.00/2012-13 July 2, 2012

The CEOs of the
All-India Term-lending and Refinancing Institutions
(Exim Bank, NABARD, NHB and SIDBI)

Dear Sir,

Master Circular - Exposure Norms for Financial Institutions

Please refer to the Master Circular DBOD.No.FID.FIC.4/01.02.00/2011-12 dated July 01, 2011 on the captioned subject. The enclosed Master Circular consolidates and updates all the instructions / guidelines on the subject up to June 30, 2012. The Master Circular has also been placed on the RBI web-site (http://www.rbi.org.in).

2. It may be noted that the instructions contained in the Annex 4 have been consolidated in this master circular.

Yours faithfully,

Sd/

(Rajesh Verma)
Chief General Manager

Master Circular - Exposure Norms for Financial Institutions

Purpose

To provide a detailed guidance to all-India term-lending and refinancing institutions in the matter of Exposure Norms.

Previous Instructions

This master circular consolidates and updates the instructions on the above subject contained in the circulars listed in the Annex 3.

Application

To all the all India Financial Institutions viz. Exim Bank, NABARD, NHB and SIDBI.

Structure

Master Circular - Exposure Norms for Financial Institutions

1. Introduction

On a review of the credit exposures of the term lending institutions in 1997, it was considered advisable to prescribe credit exposure limits for them in respect of their lending to individual / group borrowers. Accordingly, as a prudential measure, aimed at better risk management and avoidance of concentration of credit risks, it was decided in June 1997 by Reserve Bank of India to limit a term lending institution's exposures to an individual borrower and group borrowers and credit exposure norms were prescribed for them. These norms are to be considered as a part of prudent credit management system and not as a substitute for efficient credit appraisal, monitoring and other safeguards. In respect of existing credit facilities to borrowers which were in excess of the ceilings initially prescribed, term lending institutions were required to take necessary steps to rectify the excess and comply with the stipulations, within a period of one year from June 28, 1997, the date of the first circular, and to bring such cases to the notice of their Board of Directors.

2. Scope and Applicability

2.1 The exposure norms are also applicable to the refinancing institutions (viz., NABARD, NHB and SIDBI) but in view of the refinance operations being the core function of these institutions, their refinance portfolio is not subject to these exposure norms. However, from the prudential perspective, the refinancing institutions are well advised to evolve their own credit exposure limits, with the approval of their Board of Directors, even in respect of their refinancing portfolio. Such limits could, inter alia, be related to the capital funds / regulatory capital of the institution. Any relaxation / deviation from such limits, if permitted, should be only with the prior approval of the Board.

2.2 While computing the extent of exposures to a borrower / borrower group for assessing compliance vis-a-vis the single borrower limit / group borrower limit, exposures where principal and interest are fully guaranteed by the Government of India may be excluded.

2.3 These norms deal with only the individual borrower and group borrower exposures but not with the sector / industry exposures. The FIs may, therefore, consider fixing internal limits for aggregate commitments to specific sectors e.g., textiles, chemicals, engineering, etc., so that the exposures are evenly spread. These limits should be fixed having regard to the performance of different sectors and the perceived risks. The limits so fixed should be reviewed periodically and revised, if necessary.

2.4 These stipulations shall apply to all borrowers. However, in so far as public sector undertakings are concerned, only single borrower exposure limit would be applicable.

2.5 The norms have evolved over the years and various aspects of the credit exposure norms applicable to FIs are detailed in the following paragraphs.

3. Definitions

3.1 'Capital Funds'

The total regulatory capital (i.e., Tier 1 + Tier 2 capital) of the FI, determined as per the capital adequacy norms of RBI applicable to the FIs, as on March 31 (June 30 in case of NHB) of the previous year, would constitute the 'capital funds' for the purpose of exposure norms.

(The aforesaid definition of 'capital funds' came into force from April 1, 2002. From this date, the exposure ceilings were to be monitored with reference to the revised definition of capital funds as obtaining on March 31, 2002. Prior to that date, the 'capital funds' were defined as (paid up capital + free reserves) as per the published accounts but the reserves created by way of revaluation of fixed assets, etc., were to be excluded.)

3.2 'Infrastructure Projects' / 'Infrastructure Lending'

Any credit facility in whatever form extended by the FIs to an infrastructure facility as specified below falls within the definition of "infrastructure lending". In other words, it is a credit facility provided to a borrower company engaged in:

- developing or
- operating and maintaining, or
- developing, operating and maintaining

any infrastructure facility that is a project in any of the following sectors :

i) a road, including toll road, a bridge or a rail system;

ii) a highway project including other activities being an integral part of the highway project;

iii) a port, airport, inland waterway or inland port;

iv) a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;

v) telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;

vi) an industrial park or special economic zone;

vii) generation or generation and distribution of power;

viii) transmission or distribution of power by laying a network of new transmission or distribution lines;

ix) Any other infrastructure facility of similar nature.

3.3 'Group' Borrowers

The concept of "Group" and the task of identification of the borrowers belonging to specific industrial groups is to be based on the perception of the FIs. FIs are, it is observed, 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 should, therefore, be decided by them on the basis of the relevant information available with them, the guiding principle in this regard being commonality of management and effective control.

3.4 Net Owned Funds in respect of NBFCs

Net owned Fund will consist of paid up equity capital, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of assets but not reserves created by revaluation of assets. From the aggregate of items will be deducted accumulated loss balance and book value of intangible assets, if any, to arrive at owned funds. Investments in shares of other NBFCs and in shares, debentures of subsidiaries and group companies in excess of ten percent of the owned fund mentioned above will be deducted to arrive at the Net Owned Fund. The NOF should be computed on the basis of last audited Balance Sheet and any capital raised after the Balance Sheet date should not be accounted for while computing NOF.

4. Exposure Ceilings

4.1 For Single / Individual Borrowers

The credit exposure to single borrowers shall not exceed 15 per cent of capital funds of the FI. However, the exposure may exceed by additional five percentage points (i.e., up to 20 per cent) provided the additional credit exposure is on account of infrastructure projects. FIs may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds (i.e., 25 per cent of capital funds for infrastructure projects and 20 percent for other projects).

4.2 For Group Borrowers

The credit exposure to the borrowers belonging to a group shall not exceed 40 per cent of capital funds of the FI. However, the exposure may exceed by additional ten percentage points (i.e., up to 50 per cent) provided the additional credit exposure is on account of infrastructure projects. FIs may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds (i.e. 55 percent of capital funds for infrastructure projects and 45 percent for other projects).

[The exposure ceilings stipulated initially in 1997 were 25 per cent and 50 per cent of the capital funds of the FIs for the individual and group borrowers, respectively. In September 1997, an additional exposure of up to 10 percentage points for the group borrowers (i.e., up to 60 per cent) was permitted provided the additional credit exposure was on account of infrastructure projects (which at that time were narrowly defined as only power, telecommunication, roads and ports). In November 1999, with a view to moving closer to the international standard of 15 per cent exposure ceiling, the individual borrower exposure ceiling was reduced, with effect from April 1, 2000, from 25 per cent to 20 percent of capital funds. The FIs which had, as on October 31, 1999, exposures in excess of the reduced limit of 20 per cent, were permitted to reduce their exposures to the level of 20 per cent latest by October 31, 2001. In June 2001, the exposure ceilings for the individual and group borrowers were reduced from 20 percent and 50 per cent to 15 percent and 40 per cent, respectively, with effect from April1, 2002 , but the additional exposure in respect of group borrowers, of up to 10 percentage points on account of infrastructure projects was continued. In February 2003, an additional exposure of up to five percentage points (i.e., up to 20 percent) on account of infrastructure projects was permitted in respect of individual borrowers also].

4.3 For Bridge Loans / Interim Finance

4.3.1 With effect from January 23, 1998, the restriction on grant of bridge loans by the FIs against expected equity flows / issues has been lifted. Accordingly, FIs may henceforth grant bridge loan / interim finance to companies other than NBFCs against public issue of equity whether in India or abroad, for which appropriate guidelines should be laid down by the Board of the Financial

Institution, as prescribed by RBI. However, FIs should not grant any advance against Rights issue irrespective of the source of repayment of such advance.

4.3.2 FIs may sanction bridge loans to companies for commencing work on projects pending completion of formalities only against their own commitment and not against loan commitment of any other FIs / Banks. However, FIs may consider sanction of bridge loan / interim finance against commitment made by a financial institution and / or another bank only in cases where the lending institution faces temporary liquidity constraint, subject to certain conditions prescribed by RBI.

4.3.3 These restrictions are also applicable to the subsidiaries of FIs for which FIs are required to issue suitable instructions to their subsidiaries.

4.4 **Working Capital Finance**

There is no objection to FIs extending working capital finance on a very selective basis to borrowers enjoying credit limits with banks, whether under a consortium or under a multiple banking arrangement, when the banks are not in a position to meet the credit requirements of the borrowers concerned on account of temporary liquidity constraints. The FIs should take into account these guidelines while granting short term loans to borrowers enjoying credit limits with banks on a consortium basis. In case of borrowers whose working capital is financed under a multiple banking arrangement, the FI should obtain an auditor's certificate indicating the extent of funds already borrowed, before considering the borrower for further working capital finance.

4.5 **Revolving Underwriting Facility**

FIs should not extend Revolving Underwriting Facility to Short Term Floating Rate Notes / Bonds or Debentures issued by corporate entities.

4.6 **Lending to Non Banking Financial Companies (NBFCs)**

4.6.1 With effect from May 21, 1997 the quantitative limits in the form of multiples of Net Owned Funds have been removed in respect of aggregate lending by all FIs taken together for Equipment Leasing & Hire Purchase Companies and Loan & Investment Companies which have complied with Reserve Bank's requirement of registration, credit rating and prudential norms and have been so certified by the Reserve Bank. The overall ceiling for borrowing (upto ten times of NOF) has also been removed for requipment and hire purchase NBFCs which meet the aforesaid three criteria and are also certified by the RBI. However such lending would be subject to compliance with single and group borrower exposure norms.

4.6.2 For NBFCs which have not complied with the above requirements and the Residuary Non Banking Companies (RNBCs), overall limit of aggregate credit from all FIs taken together is furnished below :

Sr. No.		Category of Financial Companies	Over all Ceiling on Borrowings from all the FIs taken together
A.	**Equipment Leasing (EL) and Hire Purchase (HP) Finance Companies**		
	a)	Registered EL / HP Companies complying with Credit Rating requirement and prudential norms	No ceiling except in respect of Inter Corporate Deposits (ICDs) subscribed to by FIs which should not be more than 2 times the NOF
	b)	Registered EL / HP companies complying with either credit rating requirement or the prudential norms	Ten times the NOF with a sub-ceiling of 2 times of NOF for ICDs
	c)	Registered EL / HP companies complying with neither the credit rating nor the prudential norms	Seven times the NOF with a sub-ceiling of 2 times of NOF for ICDs
	d)	All other EL / HP Companies	Five times the NOF with a sub-ceiling of 1 times of NOF for ICDs
B.	**Loan and Investment Companies**		
	a)	Registered Loan and investment	Two times the NOF with a separate ceiling of

		Companies complying with Credit Rating requirement and prudential norms	2 times the NOF for ICDs
	b)	Registered Loan and investment Companies complying with either Credit Rating requirement or prudential norms	Equal to NOF with a separate ceiling of 2 times the NOF for ICDs
	c)	Registered Loan and investment Companies complying with neither Credit Rating requirement nor prudential norms	40% of NOF with a separate ceiling of 2 times the NOF for ICDs
	d)	All other Loan and Investment Companies	40% of NOF with a separate ceiling of equal to NOF for ICDs
C.	**Residuary Non Banking Companies**		Equal to NOF

FIs are also advised that finance by them shall not be provided to NBFCs for the following activities :

a) Bills discounted / rediscounted by NBFCs except those arising from sale of commercial vehicles including light commercial vehicles subject to normal lending safeguards;

b) Investments made by NBFCs in shares, debentures, etc., of a current nature (i.e. stock-in-trade);

c) Investments of NBFCs in and advances to subsidiaries, group companies or other entities; and

d) Investments of NBFCs in, and inter-corporate loans / deposits to / in other companies.

Further, it is advised that FIs should not sanction bridge loans and loans of a bridging nature in any form to any category of NBFCs (Including RNBCs) including against capital / debenture issues.

4.7 **Investment in Debt Securities**

The total investment in the unlisted debt securities should not exceed 10 per cent of the FIs' total investment in debt securities as given in guidelines for investment in debt securities (Annexure 1), as on March 31 (June 30 in case of NHB), of the previous year. However, the investment in the following instruments will not be reckoned as 'unlisted debt securities' for monitoring compliance with the above prudential limits :

(i) Security Receipts (SRs) issued by Securitisation Companies / Reconstruction Companies registered with RBI in terms of the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002; and

(ii) Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS) which are rated at or above the minimum investment grade.

4.8 **Investment in Venture Capital Funds (VCF)**

FIs are advised to comply with the prudential requirements relating to financing of venture capital funds (VCF) set out at Annex 3.

4.9 **Cross Holding of Capital among Banks / Financial Institutions**

(i) FIs' investment in the following instruments, which are issued by other banks / FIs and are eligible for capital status for the investee bank / FI, should not exceed 10 percent of the investing FI's capital funds (Tier I plus Tier II) :

a. Equity shares;

b. Preference shares eligible for capital status;

c. Subordinated debt instruments;

d. Hybrid debt capital instruments; and

e. Any other instrument approved as in the nature of capital.

FIs should not acquire any fresh stake in a bank's / FI's equity shares, if by such acquisition, the investing FI's holding exceeds 5 percent of the investee bank's / FI's equity capital.

(ii) FIs' investments in the equity capital of subsidiaries are at present deducted from their Tier I capital for capital adequacy purposes. Investments in the instruments issued by banks / FIs which are listed at paragraph 4.8(i) above, which are not deducted from Tier I capital of the investing FI, will attract 100 percent risk weight for credit risk for capital adequacy purposes.

4.10 **Level of Exposure**

4.10.1 The sanctioned limits or outstandings whichever is higher shall be reckoned, in respect of the funded as well as non-funded facilities, for arriving at the level of exposure. The "credit exposure" shall include funded and non-funded credit limits, underwriting and other similar commitments. The exposure on account of derivative products should also be reckoned for the purpose.

4.10.2 In case of term loans, however the level of exposure should be reckoned on the basis of actual outstandings plus undisbursed or undrawn commitments. However, in cases where disbursements are yet to commence, the level of exposure should be reckoned on the basis of the sanctioned limit or the extent up to which the FI has entered into commitments with the borrowing companies in terms of the agreement.

(Since the inception of the exposure norms, only 50 per cent of the non-funded limits were required to be reckoned for arriving at the level of exposure. However, with effect from April 1, 2003, in tune with the international practice, the funded as well as non-funded exposures are required to be reckoned at 100 per cent value.)

4.10.3 For the purpose of determining the level of exposure, the following instruments should also be reckoned :

(i) ***Bonds and Debentures in the Nature of Advance :*** The bonds and debentures should be treated in the nature of advance when :

- The debenture / bond is issued as part of the proposal for project finance and the tenor of the bond / debenture is for three years and above

and

- The FI has a significant stake (i.e., 10% or more) in the issue

and

- The issue is a part of private placement i.e., the borrower has approached the FI, and not part of a public issue where the FI has subscribed in response to an invitation.

(ii) ***Preference Shares in the Nature of Advance :*** The preference shares, other than convertible preference shares, acquired as part of project financing and meeting the criteria as at (i) above.

(iii) ***Deposits :*** The deposits placed by the FIs with the corporate sector.

4.10.4 For computing the level of exposure in respect of the NBFCs, the FI's investment in the privately placed debentures should be included while those acquired in the secondary market should be excluded.

4.10.5 ***Measurement of Exposure in Derivative Products***

With effect from April 1, 2003, the FIs are required to include in the non-funded credit limit, the forward contracts in foreign exchange and other derivative products like currency swaps, options, etc at their **replacement cost** in determining the individual / group borrower exposures, as per the following guidelines.

4.10.5.1 **Methodology for Calculation of Replacement Cost**

There are two methods for measuring the credit risk exposure inherent in derivatives, as described below.

A. ***The Original Exposure Method***

Under this method, which is a simpler alternative, the credit risk exposure of a derivative product is calculated at the beginning of the derivative transaction by multiplying the notional principal amount with the prescribed credit conversion factors. The method, however, does not take account of the ongoing market value of a derivative contract, which may vary over time. In order to arrive at the credit equivalent amount under this method, an FI should apply the following credit conversion factors to the notional principal amounts of each instrument according to the nature of the instrument and its original maturity :

Original Maturity	Credit Conversion Factor to be applied to Notional Principal Amount	
	Interest Rate Contract	Exchange Rate Contract
Less than one year	0.5%	2.0%
One year and less than two years	1.0%	5.0% (2% + 3%)
For each additional year	1.0%	3.0%

B. **The Current Exposure Method**

Under this method, the credit risk exposure / credit equivalent amount of the derivative products is computed periodically on the basis of the market value of the product to arrive at its current replacement cost. Thus, the credit equivalent of the off-balance sheet interest rate and exchange rate instruments would be the sum of the following two components:

(a) the total **'replacement cost'** - obtained by "marking-to-market" of all the contracts with positive value (i.e. when the FI has to receive money from the counterparty); and

(b) an amount for **'potential future exposure'** - calculated by multiplying the total notional principal amount of the contract by the following credit conversion factors according to the residual maturity of the contract :

Residual Maturity	Conversion Factor to be applied on Notional Principal Amount	
	Interest Rate Contract	Exchange Rate Contract
Less than one year	Nil	1.0%
One year and over	0.5%	5.0%

Under the current exposure method, the FIs should mark to market the derivative products **at least on a monthly basis** and they may follow their internal methods for determining the marked-to-market value of the derivative products. However, the FIs would not be required to calculate potential credit exposure for **single currency floating / floating interest rate swaps**. The credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

4.10.5.2 The FIs are encouraged to follow, with effect from April 1, 2003, the Current Exposure Method, which is an accurate method of measuring credit exposure in a derivative product, for determining individual / group borrower exposures. In case an FI is not in a position to adopt the Current Exposure Method, it may follow the Original Exposure Method. However, its endeavour should be to move over to Current Exposure Method in course of time.

Note : Under the extant capital adequacy norms, the credit exposure of the FIs in derivative products also gets reflected in the risk-weighted value of the off-balance sheet items in the CRAR computation, for which the 'original exposure method' has been prescribed under the capital adequacy norms. The FIs are, however, encouraged to adopt, with effect from April 1, 2003, the Current Exposure Method for computation of CRAR also.

4.11 **Exposure in respect of bonds guaranteed by Public Financial Institutions (PFIs)**

4.11.1 The investments made by the banks in the bonds and debentures of corporates which are guaranteed by a PFI listed in the Annex 2, will be treated as an exposure of the bank on the PFI and not on the corporate. Guarantees issued by a PFI to the bonds of the corporates will be treated as an exposure of the PFI to the corporate whereas the exposure of the bank on the PFI guaranteeing the corporate bond will be to the extent of 100 per cent of the bank's investment. Initially, such exposures of the PFI to the corporate were required to be reckoned to the extent of 50 per cent of the value of such guarantees, being non-funded exposure, but with effect from April 1, 2003, such exposure are also required to be reckoned at 100 per cent of the value of such guarantees.

4.11.2 The PFIs are also required to take into account the overall exposure of the guaranteed unit to the financial system before guaranteeing the bonds / debentures.

4.12 **Treatment of Loans granted by the FIs against the Guarantee of Banks**

4.11.1 The banks have been permitted to extend guarantees in respect of **infrastructure projects** in favour of other lending institutions provided the bank issuing the guarantee takes a funded share in the infrastructure project at least to the extent of five per cent of the project cost and undertakes normal credit appraisal, monitoring and follow up of the project. For the purpose of exposure norms, the entire loan transaction should be reckoned as an exposure on the borrowing entity and **not** on the bank guaranteeing the loan, so as to correctly reflect the degree of credit concentration. In case the funded facility is by way of a term loan, the level of exposure should be reckoned, as indicated below :

- Before commencement of disbursement, the exposure would be the sanctioned limit or the extent up to which the FI has entered into commitment with the borrowing entity in terms of the agreement, as the case may be;

- After commencement of disbursement, the exposure would be the aggregate of the outstanding amount plus the undisbursed or undrawn commitment.

4.13 **Reporting System**

An annual review of the implementation of exposure management measures should be placed before the Board of Directors before the end of June every year. A copy of the review should be furnished for information to the Chief General Manager, Department of Banking Supervision, Reserve Bank of India, Central Office, World Trade Centre, Cuffe Parade, Colaba, Mumbai - 400 005.

4.14 **Consolidated Financial System**

As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, in addition to prudential limits on exposure of the solo entities, the FIs at the group-wide level should also adhere to the following prudential limits, on an ongoing basis from the year beginning April 1, 2003 (July 1, 2003 in case of NHB) :

<table>
<tr><td rowspan="2">Single borrower exposures at the group level</td><td>15% of capital funds of the Group.</td></tr>
<tr><td>Upto 20% of capital funds of the Group provided the additional exposure of up to five percentage points is for the purpose of financing infrastructure projects.</td></tr>
<tr><td rowspan="2">Group borrower exposures at the group level</td><td>40% of capital funds of the Group.</td></tr>
<tr><td>Upto 50% of capital funds of the Group provided the additional exposure of up to 10 percentage points is for the purpose of financing infrastructure projects.</td></tr>
</table>

The 'capital funds' of the Group for the purpose of exposure norms would be the same as reckoned for the purpose of group-wide capital adequacy. The measurement of credit exposure at the group level should be done in the same manner as prescribed for the FIs on a solo basis.

4.15 **Disclosures**

The FI should make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where the FI had exceeded the prudential exposure limits during the year.

Annex - 1
(Para 4.7)

Guidelines on Investments by the Select All-India FIs in
Non-Government Debt Securities

1. Coverage

1.1 Investments covered

1.1.1 These guidelines **apply to** the FIs' investments in **debt instruments**, both in the primary market (public issue as also private placement) as well as the secondary market, in the following categories :

a) debt instruments issued by companies, banks, FIs and State and Central Government sponsored institutions, SPVs, etc.;

b) debt instruments / bond issued by Central or State Public Sector Undertakings, with or without government guarantee;

c) units of debt-oriented schemes of Mutual Funds i.e., the schemes whose major part the corpus is invested in debt securities;

d) Capital gains bonds and the bonds eligible for priority sector status.

1.2 Investments not covered

1.2.1 The guidelines, however, **do not apply to the following categories of investments** of the FIs :

a) government securities and the units of Gilt Funds;

b) securities which are in the nature of advance under the extant prudential norms of RBI;

c) units of the equity oriented schemes of Mutual Funds, viz., the schemes wherein a **major part** of their corpus is invested in equity shares;

d) units of the "Balanced Funds", which invest in debt as well as equities, **provided** a major part of the corpus is invested in equity shares. In case of predominance of investments in debt securities by the Fund, these guidelines would be attracted;

e) Units of venture capital funds and the money market mutual funds;

f) Commercial Paper; and

g) Certificates of Deposits.

2. Effective Date and Transition Time

While these guidelines would come into force with effect from April 1, 2004, considering the time required by the issuers of debt securities to get their existing unlisted debt issues listed on the stock exchanges, the following transition time is being provided :

a) Investment in units of mutual fund schemes where the entire corpus is invested in non-government debt securities would be outside the purview of the above guidelines **till December 31, 2004**; thereafter, such investments would also attract these guidelines.

b) With effect from January 1, 2005, investment in units of such schemes of mutual fund as have an exposure to unlisted debt securities of less than 10 per cent of the corpus of the scheme would be treated on par with listed securities for the purpose of the prudential limits prescribed at para 6 below. Thus, **till December 31, 2004**, investments in such units would attract the prudential limits.

c) With effect from January 1, 2005 only those FIs would be eligible to make **fresh investments** (up to the prescribed prudential limits) in the unlisted securities covered in these guidelines whose investments in such securities are within the prudential limits prescribed.

3. Definitions

3.1 Rated Security

A security will be treated as rated if it is subjected to a detailed rating exercise by an external rating agency in India which is registered with SEBI and is carrying a current or valid rating. The rating relied upon will be deemed to be current or valid if:

i) The credit rating letter relied upon is not more than one month old on the date of opening of the issue, and

ii) The rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and

iii) The rating letter and the rating rationale are a part of the offer document.

iv) In the case of secondary market acquisition, the credit rating of the issue should be in force and confirmed from the monthly bulletin published by the respective rating agency.

3.2 **Unrated Security :** Securities, which do not have a current or valid rating by an external rating agency, would be deemed as unrated securities.

3.3 **Listed Debt Security :** It is a security, which is listed on a stock exchange. If not so listed, it is an 'unlisted' debt security.

3.4 **Non performing Investment (NPI) :** For the limited purpose of these guidelines, an NPI (similar to a non performing advance (NPA) is one where :

i) In respect of fixed / predetermined income securities, interest / principal / fixed dividend on preference shares (including maturity proceeds) is due and remains unpaid for more than 180 days.

ii) The equity shares of a company have been valued at Re. 1/- per company, on account of the non-availability of the latest balance sheet (as per the instructions contained in para 26 of the Annexure to circular DBS.FID.No.C-9/01.02.00/2000-01 dated November 9, 2000).

iii) If any credit facility availed by the issuer of the security is classified as NPA in the books of the FI, investment in any of the securities issued by the same issuer would also be treated as NPI.

4. Regulatory Requirements Internal Assessment and Prudential Limits

4.1 Regulatory Requirements

4.1.1 The FIs must not invest in unrated debt securities but only in rated ones, which carry a minimum **investment grade rating** from a credit rating agency registered with SEBI.

4.1.2 The investment grade rating should have been awarded by an external rating agency, operating in India, as identified by the IBA / FIMMDA. The list of such agencies would also be reviewed by IBA / FIMMDA at least once a year.

4.1.3 The FIs should not invest in debt securities of **original maturity** of less than one-year other than Commercial Paper and Certificates of Deposits, which are covered under the RBI guidelines.

4.1.4 The FIs should undertake usual **due diligence** in respect of investments in debt securities including the securities which do not attract these guidelines.

4.1.5 The FIs should ensure that all fresh investments in debt securities are made only in **listed debt securities** of companies, which comply with the requirements of the SEBI except to the extent indicated in paragraph 6 below.

4.1.6 The **unlisted debt securities** in which the FIs may invest up to the limits specified in paragraph 6 below, should be rated and disclosure requirements as prescribed by the SEBI for listed companies should be followed by the issuer company.

4.2 Internal Assessments

4.2.1 Since the debt securities are very often a credit substitute, the FIs would be well advised to :

(i) subject all their investment proposals relating to debt securities to the same standards of credit appraisal as for their credit proposals, irrespective of the fact that the proposed investments may be in rated securities;

(ii) make their own internal credit analysis and assign internal rating even in respect of externally rated issues and not to rely solely on the ratings of external rating agencies; and

(iii) strengthen their internal rating systems which should also include building up of a system of regular (quarterly or half-yearly) tracking of the financial position of the issuer with a view to ensuring continuous monitoring of the rating migration of the issuers / issues.

4.3 Prudential Limits

4.3.1 The total investment in the unlisted debt securities should **not exceed 10 per cent** of the FIs' total investment in debt securities, which fall within the ambit of these guidelines, as on March 31(June 30 in case of NHB), of the previous year. However, the investment in the following instruments will not be reckoned as 'unlisted debt securities' for monitoring compliance with the above prudential limits:

(iii) Security Receipts (SRs) issued by Securitisation Companies / Reconstruction Companies registered with RBI in terms of the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002; and

(iv) Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS) which are rated at or above the minimum investment grade.

4.3.2 The FIs which have exposure to investments in debt securities in excess of the prudential limit as on March 31, 2003 (June 30, 2003 in case of NHB) should not make any fresh investment in such securities till they ensure compliance with the above prudential limit.

4.3.3 As a matter of prudence, the FIs should stipulate, with the approval of the Board, minimum ratings / quality standards and industry-wise, maturity-wise, duration-wise, issuer-wise, etc., exposure limits, for acquiring exposure in debt securities, which fall within the ambit of these guidelines, to address the concentration risk and the risk of illiquidity.

5. Role of the Boards of Directors - Reporting Requirement and Trading and Settlement in Debt Securities

5.1 Role of Directors

5.1.1 The FIs should ensure that their investment policies, duly approved by the Board of Directors, are formulated duly taking into account all the relevant aspects specified in these guidelines. The FIs should put in place proper risk management systems for capturing and analysing the risk in respect of investment in debt securities and for taking timely remedial measures. The FIs should also put in place appropriate systems to ensure that investment in privately placed instruments is made in accordance with the systems and procedures prescribed under the FI's investment policy.

5.1.2 The Board should put in place a monitoring system to ensure that the prudential limits prescribed in paragraphs 6 above are scrupulously complied with, including the system for addressing the breaches, if any, due to rating migration.

5.1.3 Boards of the FIs should review, twice a year, the following aspects of investment in debt securities covered by these guidelines :

a) Total turnover (investment and divestment) during the reporting period;

b) Compliance with the RBI-mandated prudential limits as also those prescribed by the Board for such investments;

c) Rating migration of the issuers / securities held in the books of the FIs and consequent diminution in the portfolio quality; and

d) Extent of non-performing investments in the fixed income category.

5.2 **Reporting Requirements**

5.2.1 In order to help in the creation of a central database on private placement of debt, the investing FIs should file a copy of all offer documents with the Credit Information Bureau (India) Ltd. (CIBIL). When the FIs themselves raise debt through private placement, they should also file a copy of the offer document with CIBIL.

5.2.2 Any default relating to payment of interest / repayment of instalment in respect of any privately placed debt should also be reported to CIBIL by the investing FIs along with a copy of the offer document.

5.2.3 The FIs should also report to the RBI such particulars in respect of their investments in unlisted securities as may be prescribed by RBI from time to time.

5.3 **Trading and Settlement in Debt Securities**

As per the SEBI guidelines, all trades, with the exception of the spot transactions, in a listed debt security, shall be executed only on the trading platform of a stock exchange. In addition to complying with the SEBI guidelines, the FIs should ensure that all spot transactions in listed and unlisted debt securities are reported on the NDS and settled through the Clearing Corporation of India Limited (CCIL) from a date to be notified by RBI.

Annex - 2
(Cf. Para 4.10.1)

List of Public Financial Institutions	
1.	IFCI Ltd.
2.	Industrial Investment Bank of India Ltd.
3.	Tourism Finance Corporation of India Ltd.
4.	Risk Capital and Technology Finance Corporation Ltd.
5.	Technology Development and Information Company of India Ltd.
6.	Power Finance Corporation Ltd.
7.	National Housing Bank
8.	Small Industries Development Bank of India
9.	Rural Electrification Corporation Ltd.
10.	Indian Railways Finance Corporation Ltd.
11.	National Bank for Agriculture and Rural Development.
12.	Export import Bank of India.
13.	Infrastructure Development Finance Company Ltd.
14.	Housing and Urban Development Corporation Ltd.

Annex - 3

Prudential Guidelines on Bank's Investment in Venture Capital Funds (VCF)

1. Prudential Exposure Limits

1.1 All exposures to VCFs (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (ceiling for direct investment in equity and equity linked instruments as well as ceiling for overall capital market exposure).

1.2 The investment in VCFs set up in the form of companies will be subject to compliance with the provisions of Section 19(2) of Banking Regulation Act 1949 i.e the bank will not hold more than 30% of the paid up capital of the investee company or 30% of its own paid up share capital and reserves, whichever is lower.

1.3 Besides, investments in VCFs in the form of equity / units etc. will also be subjected to the limits stipulated vide para 3 of Master circular on Para Banking Activities DBOD.FSD.No.10/24.01.001/2005-06 dated July 1, 2005 in terms of which the investment by a bank in a subsidiary company, financial services company, financial institution, stock and other exchanges should not exceed 10 per cent of the bank's paid-up capital and reserves and the investments in all such companies, financial institutions, stock and other exchanges put together should not exceed 20 per cent of the bank's paid-up capital and reserves.

2. Valuation and classification of banks' investment in VCFs

2.1 The quoted equity shares / bonds / units of VCFs in the bank's portfolio should be held under Available for Sale (AFS) category and marked to market preferably on a daily basis, but at least on a weekly basis in line with valuation norms for other equity shares as per existing instructions.

2.2 Banks' investments in unquoted shares / bonds / units of VCFs made after issuance of these guidelines will be classified under Held to Maturity (HTM) category for initial period of three years and will be valued at cost during this period. For the investments made before issuance of these guidelines, the classification would be done as per the existing norms.

2.3 For this purpose, the period of three years will be reckoned separately for each disbursement made by the bank to VCF as and when the committed capital is called up. However, to ensure conformity with the existing norms for transferring securities from HTM category, transfer of all securities which have completed three years as mentioned above will be effected at the beginning of the next accounting year in one lot to coincide with the annual transfer of investments from HTM category.

2.4. After three years, the unquoted units / shares / bonds should be transferred to AFS category and valued as under :

(i) **Units**

In the case of investments in the form of units, the valuation will be done at the Net Asset Value (NAV) shown by the VCF in its financial statements. Depreciation, if any, on the units based on NAV has to be provided at the time of shifting the investments to AFS category from HTM category as also on subsequent valuations which should be done at quarterly or more frequent intervals based on the financial statements received from the VCF. At least once in a year, the units should be valued based on the audited results. However, if the audited balance sheet / financial statements showing NAV figures are not available continuously for more than 18 months as on the date of valuation, the investments are to be valued at Rupee 1.00 per VCF.

(ii) **Equity**

In the case of investments in the form of shares, the valuation can be done at the required frequency based on the break-up value (without considering 'revaluation reserves', if any) which is to be ascertained from the company's (VCF's) latest balance sheet (which should not be more than 18 months prior to the date of valuation). Depreciation, if any on the shares has to be provided at the time of shifting the investments to AFS category as also on subsequent valuations which should be done at quarterly or more frequent intervals. If the latest balance sheet available is more than 18 months old, the shares are to be valued at Rupee.1.00 per company.

(iii) **Bonds**

The investment in the bonds of VCFs, if any, should be valued as per prudential norms for classification, valuation and operation of investment port-folio by banks issued by RBI from time to time.

3. Risk Weight and capital charge for market risk for exposures in VCFs

3.1 **Shares and units of VCFs**

Investments in shares / units of VCFs may be assigned 150% risk weight for measuring the credit risk during first three years when these are held under HTM category. When these are held under or transferred to AFS, the capital charge for specific risk component of the market risk as required in terms of the present guidelines on computation of capital charge for market risk, may be fixed at 13.5% to reflect the risk weight of 150%. The charge for general market risk component would be at 9% as in the case of other equities.

3.2 **Bonds of VCFs**

Investments in bonds of VCFs will attract risk weight of 150% for measuring the credit risk during first three years when these are held under HTM category. When the bonds are held under or transferred to AFS category, these would attract specific risk capital charge of 13.5%. The charge for general market risk may be computed as in the case of investment in any other kind of bonds as per existing guidelines.

3.3 **Exposures to VCFs other than investments**

The exposures to VCFs other than investments may also be assigned a risk weight of 150%.

4. Exemption under guidelines relating to non-SLR Securities

As per extant guidelines relating to non-SLR securities, a bank's investment in unlisted non-SLR securities should not exceed 10 per cent of its total investment in non-SLR securities as on March 31, of the previous year. Further, banks must not invest in unrated non-SLR securities. The investments in unlisted and unrated bonds of VCFs will be exempted from these guidelines.

5. RBI approval for Strategic Investments in VCFs by Banks

Banks should obtain prior approval of RBI for making strategic investment in VCFs i.e. investments equivalent to more than 10% of the equity / unit capital of a VCF.

Annex 4

Part - A

List of Circulars consolidated by the Master Circular

No.	Circular No.	Date	Subject
1.	FIC.No.187/01.02.00/94-95	September 26, 1994	Bridge loan / Interim Finance
2.	FIC.No.191/01.02.00/94-95	September 28, 1994	Lending to Non-Banking Financial Companies.
3.	FIC.No.685/01.02.00/94-95	April 21, 1995	Lending to Non Banking Financial Companies
4.	FIC.No.684/01.02.00/94-95	April 21, 1995	Lending by Financial Institutions - Bridge Loan / Interim Finance
5.	FIC.No.183/01.02.01/95-96	August 18, 1995	Lending by Financial Institutions - Bridge Loan / Interim Finance
6.	FIC.No.235/01.02.00/95-96	September 13, 1995	Commitments in respect of Underwriting etc. Obligations
7.	FIC.No.432/01.02.00/95-96	December 2, 1995	Lending by Financial Institutions - Bridge Loan / Interim Finance - Subsidiaries of FIs
8.	FIC.No.851/01.02.00/95-96	June 26, 1996	Sanction of Working Capital Credit Facility by Financial Institutions.
9.	FIC.No.11/01.02.00/96-97	April 4, 1997	Lending by Financial Institutions - Bridge Loan / Interim Finance
10.	FIC No.13/02.01.01/96-97	May 21, 1997	Lending to Non Banking Financial Companies
11.	DOS.FID.No.17/01.02.00/96-97	June 28, 1997	Limits on Credit Exposures of Term Lending Institutions to Individual / Group borrowers
12.	DOS.FID.No.18/01.02.00/97-98	September 11, 1997	Limits on Credit Exposures of Term Lending Institutions to Individual / Group borrowers
13.	DOS.FID.No.20/01.02.00/97-98	December 4, 1997	Limits on Credit Exposures of Term Lending Institutions to Individual / Group borrowers
14.	DBS.FID.No.37/02.01.01/98-99	January 11, 1999	Lending to Non Banking Financial Companies
15.	DBS.FID.No.C-7/01.02.00/ 99-2000	November 13, 1999	Credit Exposure Norms for Individual Borrowers
16.	DBS.FID.No.C-26/01.02.00/ 2000-2001	June 20, 2001	Monetary and Credit Policy Measures 2001-2002 - Credit Exposure Norms
17.	DBS.FID.No.C-3/01.02.00/ 2001-2002	August 27, 2001	Credit Exposure Norms - Applicability to Refinancing Institutions
18.	DBS.FID.No.C-12/01.02.00/ 2002-03	January 20, 2003	Credit Exposure Norms - Measurement of Credit Exposure of Derivative Products - Methodology for Measurement
19.	DBS.FID.No.C-11/01.02.00/ 2003-04	January 8, 2004	Final Guidelines on investment by the FIs in debt securities
20.	DBS.FID.No.C-1/01.02.00/ 2004-05	July 26, 2004	Annual Policy Statement for the year 2004-05 - Prudential Credit Exposure Limits by FIs
21.	DBOD.No.FID.FIC.4/01.02.00/ 2007-08	July 02, 2007	Master Circular - Exposure Norms for Financial Institutions

Part - B

List of other Circulars containing Instructions related / relevant to
Exposure Norms incorporated in the Master Circular

No.	Circular No.	Date	Subject
1.	IECD.No.7/CMD.GA/Gen/91-92	July 29, 1991	Group Accounts
2.	FIC.No.337/01.02.00/95-96	November 3, 1995	Lending by Financial Institutions - Bridge Loan / Interim Finance
3.	DBS.FID.No.24/02.01.00/97-98	January 23, 1998	Lending by Financial Institutions - Bridge Loan / Interim Loan
4.	DBS.FID.No.35/01.02.00/98-99	December 3, 1998	Strengthening of Prudential Norms
5.	DBS.FID.No.507/01.02.00/98-99	January 2, 1999	Strengthening of Prudential Norms - Risk Weight on Banks' Investments in Bonds / Securities Issued by Financial Institutions.
6.	DBS.FID.No.C-6/01.02.00/2001-2002	October 16, 2001	Guidelines for Classification and Valuation of Investments
7.	DBS.FID.No.C-5/01.02.00/2002-03	August 8, 2002	Capital Adequacy and Credit Exposure Norms - Treatment of Loans Granted by FIs Against the Guarantee of Banks
8.	DBOD.No.BP.BC.67/21.04.048/2002-03	February 4, 2003	Guidelines on Infrastructure Financing
9.	DBS.FID.No.C-5/01.02.00/2003-04	August 1, 2003	Guidelines for Consolidated Accounting and Consolidated Supervision
10.	DBOD.BP.BC.No.3/21.01.002/2004-05	July 6, 2004	Cross holding of capital among banks / financial institutions
11.	DBOD.FID.FIC.No.9/01.02.00/2010-11	December 1, 2010	Prudential Guidelines - Investment in Venture Capital Funds (VCFs)