

RBI/2004/236
DBOD No. BP. BC. 90 /21.01.002/ 2003-04

June 11, 2004

All Scheduled Commercial Banks
(excluding RRBs and LABs)

Dear Sir,

Annual Policy Statement for the year 2004-05 -Issue of Long-term Bonds by Banks

At present, banks are allowed to issue long-term subordinated debt in the nature of unsecured redeemable bonds, which qualify for Tier II capital. In the context of gradual conversion of term lending institutions into banks and with a view to giving boost to infrastructure lending, there is a felt need to allow banks to raise long-term resources for funding their long-term commitments and concurrently to assist banks in reducing ALM mismatches in the longer term maturities.

2. Accordingly, and as announced in paragraph 115 of the annual policy Statement for the year 2004-05 dated May 18, 2004 (copy of the paragraph enclosed), banks will henceforth be allowed to raise long-term bonds with a minimum maturity of five years to the extent of their exposure of residual maturity of more than five years to the infrastructure sector. It is intended that banks should have first provided assistance to such infrastructure projects before raising resources through bonds.

3. The terms of issue for the above mentioned long-term bonds are given in the Annex I. Infrastructure sector for this purpose will be as defined by the Reserve Bank from time to time. A list of items included under infrastructure sector is furnished in the Annex II.

Yours faithfully,

(C R Muralidharan)
Chief General Manager-in-Charge

Extract from Annual Policy Statement for the year 2004-05

“(a) Long-term Bonds for Infrastructure Financing

115. It was proposed in the annual policy Statement of April 2003 to issue suitable policy guidelines for banks enabling them to raise long-term resources from the market which are not in the nature of subordinated debt. In this context, in order to boost infrastructure lending, it is proposed:

- To allow banks to raise long-term bonds with a minimum maturity of 5 years to the extent of their exposure of residual maturity of more than 5 years to the infrastructure sector”

**Long-term Bonds for Infrastructure Financing
Terms of Issue**

(i) Type of bond

The instrument shall be fully paid, redeemable, unsecured and would be ranked pari passu along with other uninsured, unsecured creditors.

(ii) Currency of issue

The bonds shall be denominated in Indian Rupees.

(iii) Maturity period

The minimum maturity period of the long-term bonds shall be 5 years.

(iv) Amount

The total amount of long-term bonds issued shall not be more than the bank's exposure of residual maturity of more than five years to the infrastructure sector at the time of issuing the bonds.

(v) Options

The bonds should be issued in plain vanilla form without call or put option.

(vi) Rate of interest

The bonds may be issued with a fixed or floating rate of interest. The floating rate of interest shall be referenced to market determined benchmark rates.

(vii) Method of issue

The bonds may be issued through a public issue or private placement in full compliance with SEBI guidelines / norms including mandatory rating and listing.

Other requirements

(viii) Compliance with reserve requirements

The bonds will form part of time liabilities and would therefore be subjected to CRR/SLR requirements. The funds collected by/ on behalf of the bank for the issue, pending final allotment shall also be taken into account for the purpose.

(ix) Eligibility for deposit insurance

The bonds would not be eligible for deposit insurance.

(x) Regulatory compliance

Banks issuing long-term bonds shall be required to comply with all relevant SEBI and other regulatory authorities' regulations/ requirements.

(xi) FEMA requirement

Banks shall comply with the necessary FEMA requirements.

(xii) Reporting requirements

The banks issuing long term bonds shall submit a report to Reserve Bank of India giving details of the bonds issued, such as amount raised, maturity of the instrument, rate of interest, together with a copy of the offer document, soon after the issue is completed.

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List of Items included under Infrastructure Sector

Any infrastructure facility that is a project in any of the following sectors, or infrastructure facility of a similar nature:

- 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) *construction relating to projects involving agro-processing and supply of inputs to agriculture;*
- x) *construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;*
- xi) *construction of educational institutions and hospitals.*