

June 15, 2004

To
All Non-Banking Financial Companies (NBFCs) including Residuary Non-Banking Companies (RNBCs)

Dear Sir,

Amendment to Prudential Norms for NBFCs/RNBCs –

- (i) Widening of the definition of infrastructure loan**
- (ii) Risk weight on investments in securities issued by public financial institutions**

Please refer to paragraph Nos. 90 and 118 (copies enclosed) of the annual policy Statement for the year 2004-2005 announced by the Governor on May 18, 2004 for widening the scope of infrastructure lending and increase in the risk weight for exposure to public financial institutions (PFIs).

Widening the Scope of Infrastructure Lending

2. Infrastructure financing to certain sectors of the economy has been given a preferential treatment in the matter of risk weight for securitized papers, higher exposure ceiling, classification of assets, etc. In order to enhance the scope of financing for agriculture and allied activities by NBFCs, the definition of “infrastructure loan” given in paragraph 2(1)(viii) of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 contained in Notification No. DFC.119/DG(SPT)-98 dated January 31, 1998 (as amended up to August 1, 2003), has been expanded to include the following projects/sectors (i) construction relating to projects involving agro-processing and supply of inputs to agriculture; (ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and (iii) construction of educational institutions and hospitals. The above change comes into effect immediately.

Risk Weight for Exposure to Public Financial Institutions

3. In terms of paragraph 10 of the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 contained in Notification No. DFC.119/DG(SPT)-98 dated January 31, 1998 (as amended up to August 1, 2003), the investments by NBFCs and RNBCs in fixed deposits/certificates of deposits/bonds of public financial institutions (PFIs) and units of Unit Trust of India attract risk weight of 20 per cent. As announced in the annual policy Statement for the year 2004-05 dated May 18, 2004, entire exposure to PFIs would now attract risk weight of 100 per cent. This modification would be effective from April 1, 2005.

4. The relative provisions in the aforementioned Directions have been amended. A copy of the amending notification No. DNBS. 177/CGM(OPA)-2004 dated June 15, 2004 is enclosed. The updated notification DFC.119/DG(SPT)-98 dated January 31, 1998 is also enclosed.

5. Please acknowledge receipt of the above notifications to the Regional Office under whose jurisdiction the registered office of your company falls.

Yours faithfully,

Sd/-
(O. P. Aggarwal)
Chief General Manager-in-Charge

Encls: 3 sheets.

**Extracts of paragraph Annual Monetary and
Credit Policy for the year 2004-2005**

Widening the Scope of Infrastructure Lending

90. The critical importance of the infrastructure sector was indicated in the annual policy Statement of April 2003. On a review, it is proposed:

- To expand the scope of definition of infrastructure lending to include the following projects/sectors: (i) construction relating to projects involving agro-processing and supply of inputs to agriculture; (ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and (iii) construction of educational institutions and hospitals.

Risk Weight for Exposure to Public Financial Institutions

118. At present, exposures of banks/FIs to specified public financial institutions (PFIs) attract a risk weight of 20 per cent for capital adequacy purposes. The financial positions of PFIs are divergent. As such, preferential treatment to PFIs for capital adequacy purposes on a privileged basis is not justified. Accordingly, it is proposed that

With effect from April 1, 2005, exposures on all PFIs will attract a risk weight of 100 per cent.

RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE 1, WORLD TRADE CENTRE
CUFFE PARADE, COLABA
MUMBAI 400 005

NOTIFICATION NO.DNBS.177/CGM(OPA)-2004 dated June 15, 2004

The Reserve Bank of India, having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary so to do, in exercise of powers conferred by Section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 contained in Notification No.DFC.119/DG(SPT)-98 dated January 31, 1998 (as amended up to August 1, 2003) shall stand amended with immediate effect, as follows, namely:

1. In paragraph 2 (1)(viiia), the following shall be inserted, after item no. (h) namely, -
 - “(ha) construction relating to projects involving agro-processing and supply of inputs to agriculture;
 - (hb) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and
 - (hc) construction of educational institutions and hospitals”.
2. On and from April 1, 2005, sub-clause (ii) of clause (1) of sub-paragraph (2) of paragraph 10 shall be substituted by the following, namely, -

“(ii) Investments

(a) Approved securities [Except at (c) below]	0
(b) Bonds of public sector banks	20
(c) fixed deposits/certificates of deposits/ bonds of public financial institutions	100
(d) Shares of all companies and debentures/bonds/commercial papers of all companies and units of all mutual funds	100”

Sd/-
(O. P. Aggarwal)
Chief General Manager-in-Charge