



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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July 1, 2011
Ashadha 10, 1933 (Saka)

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir / Madam

Master Circular – Exposure Norms

Please refer to the [Master Circular DBOD No. Dir. BC. 14/13.03.00/2010-11 dated July 1, 2010](#) consolidating the instructions / guidelines issued to banks till that date relating to Exposure Norms. The Master Circular has been suitably updated by incorporating the instructions issued up to June 30, 2011 and has also been placed on the RBI website (<http://www.rbi.org.in>). A copy of the Master Circular is enclosed.

Yours faithfully

(P.R.Ravi Mohan)
Chief General Manager

Encl: as above

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MASTER CIRCULAR ON EXPOSURE NORMS

A. Purpose

This Master Circular provides a framework of the rules/regulations/instructions issued by the Reserve Bank of India to Scheduled Commercial Banks relating to credit exposure limits for individual / group borrowers and credit exposure to specific industry or sectors, and the capital market exposure of banks.

B. Classification

A statutory guideline issued by the Reserve Bank in exercise of the powers conferred by the Banking Regulation Act, 1949.

C. Previous instructions

This Master Circular consolidates and updates the instructions on the above subject contained in the circulars listed in **Annex 4**.

D. Application

To all scheduled commercial banks, excluding Regional Rural Banks.

Structure

1. INTRODUCTION

2. GUIDELINES

- 2.1 Credit Exposures to Individual / Group Borrowers
- 2.2 Credit Exposure to Industry or Certain Sectors
- 2.3 Banks' Exposure to Capital Market – Rationalisation of Norms
- 2.4 Financing of equities and investments in shares
- 2.5 Risk Management and Internal Control System
- 2.6 Valuation and Disclosure
- 2.7 Cross holding of capital among banks / financial institutions
- 2.8 Banks' Exposure to Commodity Markets – Margin Requirements
- 2.9 Limits on exposure to unsecured guarantees and unsecured advances
- 2.10 'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.

3 ANNEX

- Annex 1 Definition of infrastructure lending and list of items included under infrastructure sector
- Annex 2 List of All-India Financial Institutions guaranteeing bonds of corporate
- Annex 3 List of All-India Financial Institutions whose instruments are exempted from Capital Market Exposure ceiling
- Annex 4 List of circulars consolidated

1. INTRODUCTION

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. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against / investments in shares, convertible debentures /bonds, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs). Banks should comply with the following guidelines relating to exposure norms.

2. GUIDELINES

2.1 Credit Exposures to Individual/Group Borrowers

2.1.1 Ceilings

2.1.1.1 The exposure ceiling limits would be 15 percent of capital funds in case of a single borrower and 40 percent of capital funds in the case of a borrower group. The capital funds for the purpose will comprise of Tier I and Tier II capital as defined under capital adequacy standards (please also refer to paragraph 2.1.3.5 of this Master Circular).

2.1.1.2 Credit exposure to a single borrower may exceed the exposure norm of 15 percent of the bank's capital funds by an additional 5 percent (i.e. up to 20 percent) provided the additional credit exposure is on account of extension of credit to infrastructure projects. Credit 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 credit exposure is on account of extension of credit to infrastructure projects. The definition of infrastructure lending and the list of items included under infrastructure sector are furnished in **Annex 1**.

2.1.1.3 In addition to the exposure permitted under paragraphs 2.1.1.1 and 2.1.1.2 above, banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower (single as well as group) up to a further 5 percent of capital funds subject to the borrower consenting to the banks making appropriate disclosures in their Annual Reports.

2.1.1.4 With effect from May 29, 2008, the exposure limit in respect of single borrower has been raised to twenty five percent of the capital funds, only in respect of Oil Companies who have been issued Oil Bonds (which do not have SLR status) by Government of India. In addition to this, banks may in exceptional circumstances, as hitherto, in terms of paragraph 2.1.1.3 of the Master Circular, consider enhancement of the exposure to the Oil Companies up to a further 5 percent of capital funds.

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

2.1.1.6 Exposures to NBFCs

The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC / NBFC-AFC (Asset Financing Companies) should not exceed 10% / 15% respectively, of the bank's capital funds as per its last audited balance sheet. Banks may, however, assume exposures on a single NBFC / NBFC-AFC up to 15%/20% respectively, of their capital funds provided the exposure in excess of 10%/15% respectively, is on account of funds on-lent by the NBFC / NBFC-AFC to the infrastructure sector. Exposure of a bank to Infrastructure Finance Companies (IFCs) should not exceed 15% of its capital funds as per its last audited balance sheet, with a provision to increase it to 20% if the same is on account of funds on-lent by the IFCs to the infrastructure sector. Further, banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together. Infusion of capital funds after the published balance sheet date may also be taken into account for the purpose of reckoning capital funds. Banks should obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Banking Supervision) before reckoning the additions to capital funds.

2.1.1.7 Lending under Consortium Arrangements

The exposure limits will also be applicable to lending under consortium arrangements.

2.1.1.8 Bills discounted under Letter of Credit (LC)

Bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. In the case of negotiations 'under reserve' the exposure should be treated as on the borrower.

2.1.2 Exemptions

2.1.2.1 Rehabilitation of Sick/Weak Industrial Units

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

2.1.2.2 Food credit

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

2.1.2.3 Guarantee by the Government of India

The ceilings on single /group exposure limit would not be applicable where principal and interest are fully guaranteed by the Government of India.

2.1.2.4 Loans against Own Term Deposits

Loans and advances (both funded and non-funded facilities) granted against the security of a bank's own term deposits may not be reckoned for computing the exposure to the extent that the bank has a specific lien on such deposits.

2.1.2.5 Exposure on NABARD

The ceiling on single/group borrower exposure limit will not be applicable to

exposure assumed by banks on NABARD. The individual banks are free to determine the size of the exposure to NABARD as per the policy framed by their respective Board of Directors. However, banks may note that there is no exemption from the prohibitions relating to investments in unrated non-SLR securities prescribed in terms of the Master Circular on Prudential Norms for Classification, Valuation and Operations of Investment Portfolio by Banks, as amended from time to time.

2.1.3 Definitions

2.1.3.1 Exposure

Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding as the exposure.

2.1.3.2 Measurement of Credit Exposure of Derivative Products

For the purpose of exposure norms, banks shall compute their credit exposures, arising on account of the interest rate & foreign exchange derivative transactions and gold, using the 'Current Exposure Method', as detailed below. While computing the credit exposure banks may exclude 'sold options', provided the entire premium / fee or any other form of income is received / realised.

Bilateral netting of Mark-To-Market (MTM) values arising on account of such derivative contracts cannot be permitted. Accordingly, banks should count their gross positive MTM value of such contracts for the purposes of capital adequacy as well as for exposure norms.

Current Exposure Method

- (i) The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of current credit exposure and potential future credit exposure of these contracts. While computing the credit exposure banks may exclude 'sold options', provided the entire premium / fee or any other form of income is received / realized.
- (ii) Current credit exposure is defined as the sum of the positive mark-to-market value of these contracts. The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market, thus capturing the current credit exposure.
- (iii) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

CCF for market related off-balance sheet items		
Residual Maturity	Credit conversion factors	
	Interest Rate Contracts	Exchange Rate Contracts & Gold
One year or less	0.50%	2.00%
Over one year to five years	1.00%	10.00%
Over five years	3.00%	15.00%

(iv) For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.

(v) For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the foregoing criteria, the CCF or "add-on factor" applicable shall be subject to a floor of 1.00 per cent.

(vi) No potential future credit exposure would be calculated 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.

(vii) Potential future exposures should be based on effective rather than apparent notional amounts. In the event that the stated notional amount is leveraged or enhanced by the structure of the transaction, banks must use the effective notional amount when determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the BPLR would have an effective notional amount of USD 2 million.

2.1.3.3. Credit Exposure

Credit exposure comprises 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.

2.1.3.4 Investment Exposure

a) Investment exposure comprises the following elements:

- (i) investments in shares and debentures of companies.
- (ii) investment in PSU bonds
- (iii) investments in Commercial Papers (CPs).

b) Banks' / FIs' investments in debentures/ bonds / security receipts / pass-through certificates (PTCs) issued by an SC / RC as compensation consequent upon sale of financial assets will constitute exposure on the SC / RC. In view of the extraordinary nature of the event, banks / FIs will be allowed, in the initial years, to exceed the prudential exposure ceiling on a case-to-case basis.

c) The investment made by the banks in bonds and debentures of corporates which are guaranteed by a PFI¹ (as per list given in **Annex 2**) will be treated as an exposure by the bank on the PFI and not on the corporate.

d) 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.

2.1.3.5 Capital Funds

Capital funds for the purpose will comprise Tier I and Tier II capital as defined under capital adequacy standards and as per the published accounts as on March 31 of the previous year. However, the infusion of capital under Tier I and Tier II, either through domestic or overseas issue (in the case of branches of foreign banks operating in India, capital funds received by them from their Head Office in accordance with the provisions of Master Circular on New Capital Adequacy Framework as amended from time to time), after the published balance sheet date will also be taken into account for determining the exposure ceiling. Other accretions to capital funds by way of quarterly profits etc. would not be eligible to be reckoned for determining the exposure ceiling. Banks are also prohibited from taking exposure in excess of the ceiling in anticipation of infusion of capital at a future date.

2.1.3.6 Group

a) 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

¹ 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 40% till redemption.

With the merger of IDBI Bank Ltd. with IDBI Ltd., effective April 2, 2005, the entire liabilities of the erstwhile IDBI Bank Ltd. have been taken over by the new, combined entity Industrial Development Bank of India Ltd., since renamed as IDBI Bank Ltd. Therefore, for the purpose of exposure norms, investments made by the banks in the bonds and debentures of corporates guaranteed by the erstwhile IDBI Ltd. would continue to be treated as an exposure of the banks on IDBI Ltd. and not on the corporates, till redemption. Similarly, investments made in the erstwhile IDBI Ltd. by banks would be treated as outside the capital market exposure ceiling of 40%, till redemption.

the basis of the relevant information available with them, the guiding principle being commonality of management and effective control. In so far as public sector undertakings are concerned, only single borrower exposure limit would be applicable.

b) 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.

2.1.4 Review

An annual review of the implementation of exposure management measures may be placed before the Board of Directors before the end of June.

2.2. Credit Exposure to Industry and certain Sectors

2.2.1 Internal Exposure Limits

2.2.1.1 Fixing of Sectoral Limits

Apart from limiting the exposures to an individual or a Group of borrowers, as indicated above, 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.

2.2.1.2 Unhedged Foreign Currency Exposure of Corporates

To ensure that each bank has a policy that explicitly recognises and takes account of risks arising out of foreign exchange exposure of their clients, foreign currency loans above US \$10 million, or such lower limits as may be deemed appropriate vis-à-vis the banks' portfolios of such exposures, should be extended by banks only on the basis of a well laid out policy of their Boards with regard to hedging of such foreign currency loans. Further, the policy for hedging, to be framed by their boards, may consider, as appropriate for convenience, excluding the following:

- Where forex loans are extended to finance exports, banks may not insist on hedging but assure themselves that such customers have uncovered receivables to cover the loan amount.
- Where the forex loans are extended for meeting forex expenditure.

Banks are also advised that the Board policy should cover unhedged foreign exchange exposure of all their clients including Small and Medium Enterprises (SMEs). Further, for arriving at the aggregate unhedged foreign exchange exposure of clients, their exposure from all sources including foreign currency borrowings and External Commercial Borrowings should be taken into account.

Banks which have large exposures to clients should monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those clients, whose total foreign currency exposure is relatively large (say, about US \$ 25 million or its equivalent). The review of unhedged exposure for SMEs should also be done on a monthly basis. In all other

cases, banks are required to put in place a system to monitor and review such position on a quarterly basis.

In the case of consortium/multiple banking arrangements, the lead role in monitoring unhedged foreign exchange exposure of clients, as indicated above, would have to be assumed by the consortium leader/bank having the largest exposure.

2.2.1.3 Exposure to Real Estate

(i) 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 banks' Boards.

(ii) While appraising loan proposals involving real estate, banks should ensure that the borrowers have obtained prior permission from government / local governments / other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in the normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities. Banks' Boards may also consider incorporation of aspects relating to adherence to National Building Code (NBC) in their policies on exposure to real estate. The information regarding the NBC can be accessed from the website of Bureau of Indian Standards (www.bis.org.in). Banks should also adopt the National Disaster Management Authority (NDMA) guidelines and suitably incorporate them as part of their loan policies, procedures and documentation.

(iii) The exposure of banks to entities for setting up Special Economic Zones (SEZs) or for acquisition of units in SEZs which includes real estate would be treated as exposure to commercial real estate sector for the purpose of risk weight and capital adequacy from a prudential perspective. Banks would, therefore, have to make provisions, as also assign appropriate risk weights for such exposures, as per the existing guidelines. The above exposure may be treated as exposure to Infrastructure sector only for the purpose of Exposure norms which provide some relaxations for the Infrastructure sector. In this connection, attention is invited to paragraph 3 of our circular DBOD. BP.BC. No. 42/08.12.015/2009-10 dated September 9, 2009 .

(iv) 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 any activity connected with speculation in real estate.

2.2.2 Exposure to Leasing, Hire Purchase and Factoring Services

Banks have been permitted to undertake leasing, hire purchase and factoring activities departmentally. Where banks undertake these activities departmentally, they 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.

2.2.3 Exposure to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad and Overseas Step-down Subsidiaries of Indian Corporates

2.2.3.1 Banks are allowed to extend credit/non-credit facilities (viz. letters of credit and guarantees) to Indian Joint Ventures/Wholly-owned Subsidiaries abroad and step-down subsidiaries which are wholly owned by the overseas subsidiaries of Indian Corporates. 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.

2.2.3.2 The above exposure will, however, be subject to a limit of 20 percent of banks' unimpaired capital funds (Tier I and Tier II capital), subject to the following conditions:

- i. Loan will be granted only to those joint ventures where the holding by the Indian company is more than 51%.
- ii. Proper systems for management of credit and interest rate risks arising out of such cross border lending are in place.
- iii. While extending such facilities, banks will have to 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.
- iv. The resource base for such lending should be funds held in foreign currency accounts such as FCNR(B), EEFC, RFC, etc. in respect of which banks have to manage exchange risk.
- v. Maturity mismatches arising out of such transactions are within the overall gap limits approved by RBI.
- vi. Adherence to all existing safeguards / prudential guidelines relating to capital adequacy, exposure norms etc. applicable to domestic credit / non-credit exposures.
- vii. The set up of the step-down subsidiary should be such that banks can effectively monitor the facilities granted by them.

2.2.3.3 Further, the loan policy for such credit / non-credit facility should be, inter alia, in keeping with the following:

(a) Grant of such loans is based on proper appraisal and commercial viability of the projects and not merely on the reputation of the promoters backing the project. Non-fund based facilities should be subjected to the same rigorous scrutiny as fund-based limits.

(b) The countries where the joint ventures / wholly owned subsidiaries are located should have no restrictions applicable to these companies in regard to obtaining foreign currency loans or for repatriation, etc. and should permit non-resident banks to have legal charge on securities / assets abroad and the right of disposal in case of need.

2.2.3.4 Banks should also comply with all existing safeguards/prudential guidelines relating to capital adequacy, and exposure norms indicated in paragraph 2.1.

2.3 Banks' Exposure to Capital Markets – Rationalisation of Norms

As announced in the Mid-Term Review of Annual Policy Statement for the year 2005-2006, the prudential capital market exposure norms prescribed for banks have been rationalized in terms of base and coverage. Accordingly, the existing guidelines on banks' exposure to capital markets were modified and the revised guidelines, which came into effect from **April 1, 2007**, are as under.

2.3.1 Components of Capital Market Exposure (CME)

Banks' capital market exposures would include both their direct exposures and indirect exposures. The aggregate exposure (both fund and non-fund based) of banks to capital markets in all forms would **include** the following:

- i. direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;
- ii. advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;
- iii. advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;
- iv. advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances;
- v. secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;
- vi. loans sanctioned to corporates against the security of shares / bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;
- vii. bridge loans to companies against expected equity flows/issues;
- viii. underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds. However, with effect from April 16, 2008, banks may exclude their own underwriting commitments, as also the underwriting commitments of their subsidiaries, through the book running process for the purpose of arriving at the capital market exposure of the solo bank as well as the consolidated bank. The position in this regard would be reviewed at a future date.
- ix. financing to stockbrokers for margin trading;
- x. all exposures to Venture Capital Funds (both registered and unregistered).

2.3.2 Irrevocable Payment Commitments (IPCs)

Banks issue Irrevocable Payment Commitments (IPCs) in favour of stock exchanges on behalf of domestic mutual funds/FIIs to facilitate the transactions done by these clients. In order to protect the banks from the adverse movements in the equity prices and the possibility of default by the clients, while ensuring that there is no undue disruption in the functioning of the capital market in the country, the following risk mitigation measures have been prescribed which will be effective for the period beginning November 1, 2010 till October 31, 2011:

- i. Only those custodian banks would be permitted to issue IPCs who have a clause in the Agreement with their clients which gives them an inalienable right over the securities to be received as payout in any settlement. However, in cases where transactions are pre-funded i.e. there are clear INR funds in the customer's account and, in case of FX deals, the bank's nostro account has been credited before the issuance of the IPC by custodian banks, the requirement of the clause of inalienable right over the security to be received as payout in the agreement with the clients will not be insisted upon.
- ii. The maximum risk to the custodian banks issuing IPCs would be reckoned at 50%, on the assumption of downward price movement of the equities bought by FIIs/ Mutual Funds on the two successive days from the trade date (T) i.e., on T+1 and T+2, of 20% each with an additional margin of 10% for further downward movement.
- iii. Accordingly the potential risk on T+1 would be reckoned at 50% of the settlement amount and this amount would be reckoned as CME at the end of T+1 if margin payment / early pay in does not come in.
- iv. In case there is early pay in on T+1, there will be no Capital Market exposure. By T+1, we mean 'end of day' (EOD) as per Indian Time. Thus, funds received after EOD as per Indian Time, **will not be** reckoned as early pay-in on T+1. CME will have to be computed accordingly.
- v. In case margin is paid in cash on T+1, the CME would be reckoned at 50% of settlement price minus the margin paid. In case margin is paid on T+1 by way of permitted securities to FIIs / Mutual Funds, the CME would be reckoned at 50% of settlement price minus the margin paid plus haircut prescribed by the Exchange on the securities tendered towards margin payment.
- vi. The IPC will be treated as a financial guarantee with a Credit Conversion Factor (CCF) of 100. However, capital will have to be maintained only on exposure which is reckoned as CME because the rest of the exposure is deemed to have been covered by cash/securities which are admissible risk mitigants as per Basel II. Thus capital is to be maintained on the amount taken for CME and the risk weight would be 125% thereon.

2.3.3 Limits on Banks' Exposure to Capital Markets

2.3.3.1 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 any 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.

2.3.3.2 Regulatory Limit

A Solo Basis

The aggregate exposure of a bank to the capital markets in all forms (both fund based and non-fund based) should not exceed 40 per cent of its net worth (as defined in paragraph 2.3.4), as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs) [both registered and unregistered] should not exceed 20 per cent of its net worth.

B Consolidated Basis

The aggregate exposure of a consolidated bank to capital markets (both fund based and non-fund based) should not exceed 40 per cent of its consolidated net worth as on March 31 of the previous year. Within this overall ceiling, the aggregate direct exposure by way of the consolidated bank's investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs) [both registered and unregistered] should not exceed 20 per cent of its consolidated net worth.

Note For the purpose of application of prudential norms on a group-wise basis, a 'consolidated bank' is defined as a group of entities, which include a licensed bank, which may or may not have subsidiaries.

2.3.3.3 The above-mentioned ceilings (sub-paragraphs A and B) are the maximum permissible and a bank's Board of Directors is free to adopt a lower ceiling for the bank, keeping in view its overall risk profile and corporate strategy. Banks are required to adhere the ceilings on an ongoing basis.

2.3.4 Definition of Net Worth

Net worth would comprise Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets. No general or specific provisions should be included in computation of net worth. Infusion of capital through equity shares, either through domestic issues or overseas floats after the published balance sheet date, may also be taken into account for determining the ceiling on exposure to capital market. Banks should obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Banking Supervision) before reckoning the additions, as stated above.

2.3.5 Items excluded from Capital Market Exposure

The following items would be excluded from the aggregate exposure ceiling of 40 per cent of net worth and direct investment exposure ceiling of 20 per cent of net worth (wherever applicable) :

- i. Banks' investments in own subsidiaries, joint ventures, sponsored Regional Rural Banks (RRBs) and investments in shares and convertible debentures, convertible bonds issued by institutions forming crucial financial infrastructure such as National Securities Depository Ltd. (NSDL), Central Depository Services (India) Ltd. (CDSL), National Securities Clearing Corporation Ltd. (NSCCL), National Stock Exchange (NSE), Clearing Corporation of India Ltd., (CCIL), Credit Information Bureau of India Ltd. (CIBIL) and other approved credit information companies, Multi Commodity Exchange Ltd. (MCX), National Commodity and Derivatives Exchange Ltd. (NCDEX), National Multi-Commodity Exchange of India Ltd. (NMCEIL), National Collateral Management Services Ltd. (NCMSL), National Payments Corporation of India (NPCI) and United Stock Exchange of India Ltd; (USEIL) and other All India Financial Institutions as given in **Annex 3**. After listing, the exposures in excess of the original investment (i.e. prior to listing) would form part of the Capital Market Exposure.
- ii. Tier I and Tier II debt instruments issued by other banks;
- iii. Investment in Certificate of Deposits (CDs) of other banks;
- iv. Preference Shares;
- v. Non-convertible debentures and non-convertible bonds;
- vi. Units of Mutual Funds under schemes where the corpus is invested exclusively in debt instruments;
- vii. Shares acquired by banks as a result of conversion of debt/overdue interest into equity under Corporate Debt Restructuring (CDR) mechanism;
- viii. Term loans sanctioned to Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries under the refinance scheme of Export Import Bank of India (EXIM Bank).
- ix) With effect from April 16, 2008, banks may exclude their own underwriting commitments, as also the underwriting commitments of their subsidiaries, through the book running process, for the purpose of arriving at the capital market exposure of the solo bank as well as the consolidated bank. (However, the position in this regard would be reviewed at a future date).
- x.) Promoters' shares in the SPV of an infrastructure project pledged to the lending bank for infrastructure project lending.

2.3.6 Computation of exposure

For computing the exposure to the capital markets, loans/advances sanctioned and guarantees issued for capital market operations would be reckoned with reference to sanctioned limits or outstanding, whichever is higher. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the

sanctioned limit, banks may reckon the outstanding as the exposure. Further, banks' direct investment in shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds would be calculated at their cost price.

2.3.7 Intra-day Exposures

At present, there are no explicit guidelines for monitoring banks' intra-day exposure to the capital markets, which are inherently risky. It has been decided that the Board of each bank should evolve a policy for fixing intra-day limits and put in place an appropriate system to monitor such limits, on an ongoing basis. The position will be reviewed at a future date.

2.3.8 Enhancement in limits

Banks having sound internal controls and robust risk management systems can approach the Reserve Bank for higher limits together with details thereof.

2.4 Financing of equities and investments in shares

2.4.1 Advances against shares to individuals

Loans against security of shares, convertible bonds, convertible debentures and units of equity oriented mutual funds to individuals from the banking system should not exceed the limit of Rs.10 lakh per individual if the securities are held in physical form and Rs. 20 lakhs per individual if the securities are held in demat form. Such loans are meant for genuine individual investors and banks should not support collusive action by a large group of individuals belonging to the same corporate or their inter-connected entities to take multiple loans in order to support particular scrips or stock-broking activities of the concerned firms. Such finance should be reckoned as an exposure to capital market. Banks should formulate, with the approval of their Board of Directors, a Loan Policy for granting advances to individuals against shares, debentures, and bonds keeping in view the RBI guidelines. As a prudential measure, banks may also consider laying down appropriate aggregate sub-limits of such advances.

2.4.2 Financing of Initial Public Offerings (IPOs)

Banks may grant advances to individuals for subscribing to IPOs. Loans/advances to any individual from the banking system against security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds should not exceed the limit of Rs.10 lakh for subscribing to IPOs. The corporates should not be extended credit by banks for investment in other companies' IPOs. Similarly, banks should not provide finance to NBFCs for further lending to individuals for IPOs. Finance extended by a bank for IPOs should be reckoned as an exposure to capital market.

2.4.3 Bank finance to assist employees to buy shares of their own companies

2.4.3.1 Banks may extend finance to employees for purchasing shares of their own companies under Employees Stock Option Plan(ESOP)/ reserved by way of employees' quota under IPO to the extent of 90% of the purchase price of the shares

or Rs.20 lakh, whichever is lower. Finance extended by banks for ESOPs/ employees' quota under IPO would be treated as an exposure to capital market within the overall ceiling of 40 per cent of their net worth. These instructions will not be applicable for extending financial assistance by banks to their own employees for acquisition of shares under ESOPs/ IPOs, as banks are not allowed to extend advances including advances to their employees / Employees' Trusts set up by them for the purpose of purchasing their own banks' shares under ESOPs / IPOs or from the secondary market. This prohibition will apply irrespective of whether the advances are secured or unsecured.

2.4.3.2 Banks should obtain a declaration from the borrower indicating the details of the loans / advances availed against shares and other securities specified above, from any other bank/s in order to ensure compliance with the ceilings prescribed for the purpose.

2.4.3.3 Follow-on Public Offers(FPOs) will also be included under IPO.

2.4.4 Advances against shares to Stock Brokers & Market Makers

2.4.4.1 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 40 percent of their net worth as on March 31 of the previous year, a sub-ceiling for total advances to –

- i. all the stockbrokers 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.

2.4.4.2 Further, banks should not extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges.

2.4.5 Bank financing to individuals against shares to joint holders or third party beneficiaries

While granting advances against shares held in joint names to joint holders or third party beneficiaries, banks should be circumspect and ensure that the objective of the regulation is not defeated by granting advances to other joint holders or third party beneficiaries to circumvent the above limits placed on loans/advances against shares and other securities specified above.

2.4.6 Advances against units of mutual funds

While granting advances against units of mutual funds, the banks should adhere to the following guidelines:

- i) The units should be listed in the stock exchanges or repurchase facility for the units should be available at the time of lending.
- ii) The units should have completed the minimum lock-in-period stipulated in the relevant scheme.
- iii) The amount of advances should be linked to the Net Asset Value (NAV) / repurchase price or the market value, whichever is less and not to the face value of the units.
- iv) Advances against units of mutual funds (except units of exclusively debt oriented mutual funds) would attract the quantum and margin requirements as are applicable to advances against shares and debentures. However, the quantum and margin requirement for loans/ advances to individuals against units of exclusively debt-oriented mutual funds may be decided by individual banks themselves in accordance with their loan policy.
- v) The advances should be purpose oriented taking into account the credit requirement of the investor. Advances should not be granted for subscribing to or boosting up the sales of another scheme of a mutual fund or for the purchase of shares/ debentures/ bonds etc.

2.4.7 Advances to other borrowers against shares/debentures/bonds

2.4.7.1 The question of granting advances against primary security of shares and debentures including promoters' shares to industrial, corporate or other borrowers should not normally arise. However, such securities can be accepted as collateral for secured loans granted as working capital or for other productive purposes from borrowers other than NBFCs. In such cases, banks should accept shares only in dematerialised form. Banks may accept shares of promoters only in dematerialised form wherever demat facility is available.

2.4.7.2 In the course of setting up of new projects or expansion of existing business or for the purpose of raising additional working capital required by units other than NBFCs, there may be situations where such borrowers may not be able to find the required funds towards margin, in anticipation of mobilising of long-term resources. In such cases, there would be no objection to the banks' obtaining collateral security of shares and debentures by way of margin. Such arrangements would be of a temporary nature and may not be continued beyond a period of one year. Banks have to satisfy themselves regarding the capacity of the borrower to raise the required funds and to repay the advance within the stipulated period.

2.4.8 Bank Loans for Financing Promoters' Contributions

2.4.8.1 Loans sanctioned to corporates against the security of shares (as far as possible, demat shares) for meeting promoters' contribution to the equity of new companies in anticipation of raising resources, should be treated as a bank's investments in shares which would thus come under the ceiling of 40 percent of the bank's net worth as on March 31 of the previous year prescribed for the bank's total exposure including both fund based and non-fund based to capital market in all forms.

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

2.4.9 Bridge Loans

2.4.9.1 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 40 percent of the banks' net worth as on March 31 of the previous year prescribed for total exposure, including both fund-based and non-fund based exposure to capital market in all forms.

2.4.9.2 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.

2.4.9.3 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.

2.4.10 Investments in Venture Capital Funds (VCFs)

As announced in the Annual Policy Statement for the year 2006-2007 and advised in our circulars DBOD.BP.BC.84 & 27/21.01.002/2005-2006 dated May 25 and August 23, 2006 respectively, banks' 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 (both direct and indirect).

2.4.11 Margins on advances against shares/ issue of guarantees

A uniform margin of 50 per cent shall be applied on all advances / financing of IPOs / issue of guarantees on behalf of stockbrokers and market makers. A minimum cash margin of 25 per cent (within the margin of 50%) shall be maintained in respect of guarantees issued by banks for capital market operations. These margin requirements will also be applicable in respect of bank finance to stock brokers by way of temporary overdrafts for DVP transactions.

2.4.12 Disinvestment Programme of the Government of India

In the context of the Government of India's programme of disinvestments of its holdings in some public sector undertakings (PSUs), banks can extend finance to the successful bidders for acquisition of shares of these PSUs. If on account of banks' financing acquisition of PSU shares under the Government of India's disinvestment programmes, any bank is likely to exceed the regulatory ceiling of 40 per cent of its net worth as on March 31 of the previous year, such requests for relaxation of the ceiling would be considered by RBI on a case by case basis, subject to adequate safeguards regarding margin, bank's overall exposure to capital market, internal control and risk management systems, etc. The relaxation would be considered in such a manner that the bank's exposure to capital market in all forms, net of its advances for financing of acquisition of PSU shares, shall be within the regulatory

ceiling of 40 per cent. RBI would also consider relaxation on specific requests from banks in the individual / group credit exposure norms on a case by case basis, provided that the bank's total exposure to the borrower, net of its exposure due to acquisition of PSU shares under the Government of India disinvestments programme, should be within the prudential individual/ group borrower exposure ceiling prescribed by RBI.

2.4.13. a. Financing for Acquisition of Equity in Overseas Companies

Banks may extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a Board approved policy, duly incorporated in the loan policy of the banks. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. While the Board may frame its own guidelines and safeguards for such lending, such acquisition(s) should be beneficial to the company and the country. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

b. Refinance Scheme of Export Import Bank of India

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

2.4.14 Arbitrage Operations

Banks should not undertake arbitrage operations themselves or extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges. While banks are permitted to acquire shares from the secondary market, they should ensure that no sale transaction is undertaken without actually holding the shares in their investment accounts.

2.4.15 Margin Trading

2.4.15.1 Banks may extend finance to stockbrokers for margin trading. The Board of each bank should formulate detailed guidelines for lending for margin trading, subject to the following parameters:

- (i) The finance extended for margin trading should be within the overall ceiling of 40% of net worth prescribed for exposure to capital market.
- (ii) A minimum margin of 50 per cent should be maintained on the funds lent for margin trading.
- (iii) The shares purchased with margin trading should be in dematerialised mode under pledge to the lending bank. The bank should put in place an appropriate

system for monitoring and maintaining the margin of 50% on an ongoing basis.

(iv) The bank's Board should prescribe necessary safeguards to ensure that no "nexus" develops between inter-connected stock broking entities/ stockbrokers and the bank in respect of margin trading. Margin trading should be spread out by the bank among a reasonable number of stockbrokers and stock broking entities.

2.4.15.2 The Audit Committee of the Board should monitor periodically the bank's exposure by way of financing for margin trading and ensure that the guidelines formulated by the bank's Board, subject to the above parameters, are complied with. Banks should disclose the total finance extended for margin trading in the "Notes on Account" to their Balance Sheet.

2.5. Risk Management and Internal Control System

Banks desirous of making investment in equity shares/ debentures, financing of equities and issue of guarantees etc., within the above ceiling, should observe the following guidelines:

2.5.1 Investment Policy

- (i) The banks should formulate transparent policy and procedure for investment in shares etc., with the approval of their Board.
- (ii) The banks should build up adequate expertise in equity research by establishing a dedicated equity research department, wherever warranted by their scale of operations.

2.5.2 Investment Committee

The decision in regard to direct investment should be taken by an Investment Committee set up by the bank's Board. The Investment Committee should be held accountable for all investments made by the bank.

2.5.3 Risk Management

- (i) Banks should ensure that their exposure to stockbrokers is well diversified in terms of number of broker clients, individual inter-connected broking entities.
- (ii) While sanctioning advances to stockbrokers, the banks should take into account the track record and credit worthiness of the broker, financial position of the broker, operations on his own account and on behalf of clients, average turnover period of stocks and shares, the extent to which broker's funds are required to be involved in his business operations, etc.
- (iii) While processing proposals for loans to stockbrokers, banks should obtain details of facilities enjoyed by the broker and all his connected companies from other banks.
- (iv) While granting advances against shares and debentures to other borrowers, banks should obtain details of credit facilities availed by them or their associates / inter-

connected companies from other banks for the same purpose (i.e. investment in shares etc.) in order to ensure that high leverage is not built up by the borrower or his associate or inter-connected companies with bank finance.

2.5.4 Audit Committee

- (i) The surveillance and monitoring of investment in shares / advances against shares shall be done by the Audit Committee of the Board, which shall review in each of its meetings, the total exposure of the bank to capital market both fund based and non-fund based, in different forms and ensure that the guidelines issued by RBI are complied with and adequate risk management and internal control systems are in place;
- (ii) The Audit Committee shall keep the Board informed about the overall exposure to capital market, the compliance with the RBI and Board guidelines, adequacy of risk management and internal control systems;
- (iii) In order to avoid any possible conflicts of interest, it should be ensured that the stockbrokers as directors on the Boards of banks or in any other capacity, do not involve themselves in any manner with the Investment Committee or in the decisions in regard to making investments in shares, etc., or advances against shares.

2.6 Valuation and Disclosure

Equity shares in a bank's portfolio - as primary security or as collateral for advances or for issue of guarantees and as an investment - should be marked to market preferably on a daily basis, but at least on weekly basis. Banks should disclose the total investments made in equity shares, convertible bonds and debentures and units of equity oriented mutual funds as also aggregate advances against shares in the "Notes on Account" to their balance sheets.

2.7 Cross holding of capital among banks / financial institutions

- 2.7.1 (i) Banks' / 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 bank'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.
- (ii) Banks / FIs should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's / FI's holding exceeds 5 percent of the investee bank's equity capital.
- (iii) It is clarified that a bank's/FI's equity holdings in another bank held under provisions of a Statute will be outside the purview of the ceiling prescribed above.
- 2.7.2 Banks' / 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 2.7.1(i) above, which are not deducted from Tier I capital of the investing bank/ FI, will attract 100 percent risk weight for credit risk for capital adequacy purposes.

2.8 Margin Requirements

A. Banks' Exposure to Commodity Markets

In terms of extant instructions, banks may issue guarantees on behalf of share and stock brokers in favour of stock exchanges in lieu of margin requirements as per stock exchange regulations. While issuing such guarantees banks should obtain a minimum margin of 50 percent. A minimum cash margin of 25 percent (within the above margin of 50 percent) should be maintained in respect of such guarantees issued by banks. The above minimum margin of 50 percent and minimum cash margin requirement of 25 percent (within the margin of 50 percent) will also apply to guarantees issued by banks on behalf of commodity brokers in favour of the national level commodity exchanges, viz., National Commodity & Derivatives Exchange (NCDEX), Multi Commodity Exchange of India Limited (MCX) and National Multi-Commodity Exchange of India Limited (NMCEIL), in lieu of margin requirements as per the commodity exchange regulations.

B. Banks' exposure in respect of Currency Derivatives segment

The provisions with respect to capital market exposure including the related provisions with regard to maintenance of 50% margin as well as intra-day monitoring are not applicable to banks' exposure to brokers under the currency derivatives segment.

2.9 Limits on exposure to unsecured guarantees and unsecured advances

- 2.9.1 The instruction that 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 has been withdrawn to enable banks' Boards to formulate their own policies on unsecured exposures. Simultaneously, all exemptions allowed for computation of unsecured exposures also stand withdrawn.
- 2.9.2 With a view to ensuring uniformity in approach and implementation, 'unsecured exposure' is defined as an exposure where the realisable value of the security, as assessed by the bank /approved valuers / Reserve Bank's inspecting officers, is not more than 10 percent, ab-initio, of the outstanding exposure. 'Exposure' shall include all funded and non-funded exposures (including underwriting and similar commitments). 'Security' will mean tangible security properly charged to the bank and will not include intangible securities like guarantees, comfort letters, etc.
- 2.9.3. For determining the amount of unsecured advances for reflecting in schedule 9 of the published balance sheet, the rights, licenses, authorisations, etc., charged to the banks as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Banks, may however, treat annuities under build-operate –transfer (BOT) model in respect of road/highway projects and toll collection rights where there are provisions to compensate the

project sponsor if a certain level of traffic is not achieved, as tangible securities, subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

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

2.10.1 '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.

2.10.2 Provision of buy back facilities

In some cases, the issuers provide buy-back facilities to original investors up to 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.

**The definition of infrastructure lending and the list of the items
included under infrastructure sector
[paragraph 2.1.1.2]**

Any credit facility in whatever form extended by lenders (i.e. banks, FIs or NBFCs) to an infrastructure facility as specified below falls within the definition of "infrastructure lending". In other words, a credit facility provided to a borrower company engaged in:

- o developing or
- o operating and maintaining, or
- o developing, operating and maintaining any infrastructure facility that is a project in any of the following sectors, or any 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), Telecom Towers, network of trunking, broadband network and internet services;
 - vi. an industrial park or special economic zone ;
 - vii. generation or generation and distribution of power including power projects based on all the renewable energy sources such as wind, biomass, small hydro, solar, etc.
 - viii. transmission or distribution of power by laying a network of new transmission or distribution lines.
 - ix. projects involving agro-processing and supply of inputs to agriculture;
 - x. projects for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
 - xi. educational institutions and hospitals.
 - xii. laying down and / or maintenance of pipelines for gas, crude oil, petroleum, minerals including city gas distribution networks.
 - xiii. any other infrastructure facility of similar nature.

**List of All-India Financial Institutions
(Counter party exposure - List of institutions guaranteeing bonds of corporates)
[paragraphs 2.1.3.4(c)]**

1. Industrial Finance Corporation of India 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.
15. Indian Renewable Energy Development Agency Ltd.

List of All-India Financial Institutions

**[Investment in equity/convertible bonds/ convertible debentures by banks -
List of FIs whose instruments are exempted from Capital Market Exposure ceiling]
[paragraph 2.3.5 (i)]**

1. Industrial Finance Corporation of India Ltd. (IFCI)
2. Tourism Finance Corporation of India Ltd. (TFCI)
3. Risk Capital and Technology Finance Corporation Ltd. (RCTC)
4. Technology Development and Information Company of India Ltd. (TDICI)
5. National Housing Bank (NHB)
6. Small Industries Development Bank of India (SIDBI)
7. National Bank for Agriculture and Rural Development (NABARD)
8. Export Import Bank of India (EXIM Bank)
9. Industrial Investment Bank of India (IIBI)
10. Life Insurance Corporation of India (LIC)
11. General Insurance Corporation of India (GIC)

ANNEX 4

List of Circulars consolidated by the Master Circular on ‘Exposure Norms’

Sr. No	Circular No.	Date	Subject
1	Mail Box Clarification	20.06.2011	Import of Section 25 of the Banking Regulation Act, 1949 - Para 2.2.3.2(iii) of the MC on Exposure Norms dated July 1, 2010 modified
2	DBOD.Dir.BC.No. 93/08.12.14/2010-11	12.05.2011	National Disaster Management Guidelines on Ensuring Disaster Resilient construction of Buildings and Infrastructure
3	A.P. (DIR Series)Circular No. 54	29.04.2011	Issue of Irrevocable Payment Commitments(IPCs) to Stock Exchanges on behalf of Mutual Funds(MFs) and Foreign Institutional Investors(FIIs)
4	Mail Box Clarification	19.11.2010	Bank’s Exposure to Capital Market-Issue of Irrevocable payment Commitments(IPCs)
5	DBOD.Dir.BC.52/13.03.00/2010-11	28.10.2010	Bank’s Exposure to Capital Market-Issue of Irrevocable payment Commitments(IPCs)
6	DBOD.No.BP.BC.48/21.06.001/2010-11	01.10.2010	Prudential Norms for Off-Balance Sheet exposures of Banks-Bilateral Netting of Counterparty Credit Exposures
7	DBOD.Dir.BC.46/13.03.00/2010-11	30.09.2010	Bank’s Exposure to Capital Market-Issue of Irrevocable Payment Commitments(IPCs)
8	DBOD. Dir. BC 41/13.03.00/2010-11	21.09.2010	Items excluded from CME
9	DBOD.Dir.BC.32/13.03.00/2010-11	30.07.2010	Bank’s Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
10	DBOD. Dir.BC.116/13.03.00/2009-10	30.06.2010	Bank’s Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
11	DBOD.No.BP.BC.96/08.12.014/2009-10	23.04.2010	Prudential Norms on Advances to Infrastructure Sector
12	Mail Box Clarification	09.04.2010	Definition of Infrastructure Lending

13	DBOD.No.Dir.BC.74/21.04.172/2009-10	12.02.2010	Risk Weights and Exposure Norms in respect of Bank Exposure to NBFCs categorized as 'Infrastructure Finance Companies'
14	DBOD.Dir.BC.66/13.03.00/2009-10	23.12.2009	Bank's Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
15	Mail Box Clarification dated	9.11.2009	Banks' Exposure towards Power Projects based on Renewable Energy Sources
16	DBOD.No.Dir.BC.139/13.03.00/2008-09	25.06.2009	Bank's Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
17	DBOD.No.BP.BC.125/21.04.048/2008-09	17.04.2009	Prudential Norms on Unsecured Advances
18	DBOD.No.Dir.BC.119/13.03.00/2008-09	30.03.2009	Bank's Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
19	DBOD. No. Dir.BC.98/13.03.00/2008-2009	12.12.2008	Bank's Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
20	DBOD.No.BP.BC.96/21.04.103/2008-09	10.12.2008	Unhedged Foreign Exchange Exposure of Clients - Monitoring by Banks
21	DBOD.No.Dir.BC.41/13.03.00/2008-09	10.09.2008	Bank's Exposure to Capital Market-Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
22	DBOD.No.BP.BC.31/21.04.157/2008-09	08.08.2008	Prudential Norms for Off-balance Sheet Exposures of Banks
23	DBOD.No.Dir.BC.92/13.03.00/2007-08	9.06.2008	Banks' Exposure to Capital Market - Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
24	DBOD. No. Dir.BC.87/13.27.00/2007-08	29.05.2008	Exposure Norms

25	DBOD.No.Dir.BC.57/13.03.00/2007-08	14.12.2007	Banks' Exposure to Capital Market - Loans Extended by Banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs)
26	DBOD.No.BP.BC.52/21.04.048/2007-08	30.11.2007	Financing of Infrastructure by the Banks and Financial Institutions - Definition of 'Infrastructure Lending'
27	DBOD.No.IBD.BC.96/23.37.001/2006-07	10.05.2007	Annual Policy Statement for the Year 2007-08 - Extension of Credit Facilities to Overseas Step-down Subsidiaries of Indian Corporates
28	DBOD.No.Dir..BC.51/13.03.00/2006-07	09.01.2007	Banks' Exposure to Commodity Markets - Margin Requirements
29	DBOD.No.Dir.BC.47/13.07.05/2006-07	15.12.2006	Bank's Exposure to Capital Markets - Rationalization of Norms
30	DBOD.No.FSD.BC.46/24.01.028/2006-07	12.12.2006	Financial Regulation of Systemically Important NBFCs and Banks' Relationship with them
31	DBOD.No.IBD.BC.41/23.37.001/2006-07	6.11.2006	Mid-Term Review of Annual Policy Statement for the year 2006-07 - Extension of Funded and Non-funded Credit Facilities to Indian Joint Ventures (JVs) / Wholly Owned Subsidiaries (WOSs) Abroad - Enhancement
32	DBOD.No.BP.BC.30/21.01.002/2006-07	20.09.2006	Banks' Exposure to Entities for Setting up Special Economic Zones (SEZs) / Acquisition of Units in SEZs
33	DBOD.No.BP.BC.27/21.01.002/2006-07	23.08.2006	Prudential Guidelines - Bank's Investment in Venture Capital Funds (VCFs)
34	DBOD.No.BP.BC.1711/08.12.14/2005-06	12.06.2006	Adherence to National Building Code (NBC) Specifications Necessary for Lending Institutions
35	DBOD.No.BP.BC.84/21.01.002/2005-06	25.05.2006	Annual Policy Statement for the Year 2006-07 - Risk Weight on Exposures to Commercial Real Estate and Venture Capital Funds
36	DBOD.No.BP.BC.73/21.03.054/2005-06	24.03.2006	Bills discounted under LC-Risk Weight & Exposure Norms
37	DBOD.No.BP.BC.65/08.12..01/2005-06	1.03.2006	Banks' Exposure to Real Estate Sector

38	DBOD.No.Dir.BC.51/13.07.05/2005-06	27.12.2005	Guidelines for Bank Finance to Employees / Employee Trusts for Purchasing Banks' Own Shares
39	DBOD.No.Dir.BC.93/13.07.05/2004-05	07.06.2005	Financing of Acquisition of Equity in Overseas Companies
40	DBOD.No.Dir.BC.69/13.07.05/2004-05	31.01.2005	Advances against Units of Debt-Oriented Mutual Funds
41	DBOD.No.Dir.BC.64/13.07.05/2004-05	27.12.2004	Bank Financing of Equities and Investments in Shares
42	DBOD.No.Dir.BC.63/13.07.05/2004-05	24.12.2004	Bank Finance to Assist Employees to Buy Shares of their Own Companies
43	DBOD.No.BP.BC.3/21.01.002/2004-05	06.07.2004	Prudential Norms on Capital Adequacy - Cross holding of Capital among Banks / Financial Institutions
44	DBOD.No.BP.BC.100/21.03.054/2003-04	21.06.2004	Annual Policy Statement for the year 2004-05 - Prudential Credit Exposure Limits by Banks
45	DBOD.No.BP.BC.97/21.04.141/2003-04	17.06.2004	Annual Policy Statement for the year 2004-05 - Prudential Guidelines on Unsecured Exposures
46	DBOD.No.BP.BC.92/21.04.048/2003-04	16.06.2004	Annual Policy Statement for the year 2004-05 : Guidelines on Infrastructure Financing
47	DBOD.No.Dir.BC.86/13.07.05/2003-04	18.05.2004	Bank Financing of Equities and Investments in Shares
48	DBOD.No.Dir.BC.67/13.07.05/2003-04	06.02.2004	Guidelines for Bank Finance to Assist Employees to buy Shares of their own Companies
49	DBOD.No.Dir.BC.61/13.07.05/2003-04	03.01.2004	Bank Financing of Equities and Investments in Shares
50	DBOD.BP.BC.51/21.04.103/2003-04	5.12.2003	Mid-term Review of Monetary and Credit Policy for the year 2003-04 - Unhedged Foreign Currency Exposures of Corporate
51	DBOD.No.BP.BC.96/21.04.048/2002-03	23.04.2003	Guidelines on Sale of Financial Assets to Securitization Company (SC)/Reconstruction Company (RC) (Created under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) and Related Issues

52	DBOD.No.IBS.BC.94/23.37.001/2002-03	08.04.2003	Extension of Credit/Non-credit Facilities to Indian Joint Ventures (JVs)/Wholly Owned Subsidiaries (WOSs) Abroad and Extension of Buyer's Credit and Acceptance Finance to Overseas Parties by Banks in India
53	DBOD.No.BP.BC.72/21.04.018/2002-03	25.02.2003	Guidelines for Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision
54	DBOD.No.BP.BC.67/21.04.048/2002-03	04.02.2003	Guidelines on Infrastructure Financing
55	DBOD.No.FSC.BC.66/24.01.022/2002-03	31.01.2003	Public Issue of Shares and Debentures - Underwriting by Merchant Banking Subsidiaries of Commercial Banks
56	DBOD.No.Dir.BC.63/13.07.05/2002-03	29.01.2003	Bank Financing of Equities and Investments in Shares
57	DBOD.No.BP.BC.48/21.03.054/2002-03	13.12.2002	Measurement of Credit Exposure of Derivative Products
58	DBOD.No.BP.BC.17/21.04.137/2002-03	16.08.2002	Guidelines for Bank Finance for PSU Disinvestments of Government of India
59	DBOD.No.Dir.BC. 6/13.07.05/02-03	22.07.2002	Investment in equities/bonds issued by All India Financial Institutions.
60	DBOD.BP.BC. 2/21.01.002/ 02-03	05.07.2002	Master Circular – Prudential Norms on capital adequacy.
61	IECD no.16/08.12.01/2001-02	20.02.2002	Financing of infrastructure projects
62	DBOD.BP.BC.47/21.03.54/2001-02	22.11.2001	Limit on credit exposure to Individual/group borrowers.
63	DBOD.BP.BC. 45/21.04.137/01-02	15.11.2001	Bank financing for margin trading.
64	DBOD.BP.BC.37/21.04.103/2001-02	27.10.2001	Monetary and Credit Policy measures-unhedged foreign currency exposure of corporates
65	DBOD. BP.BC. 27/21.04.137/2001	22.09. 2001	Bank financing for margin trading.
66	DBOD No. BP.BC. 119/21.04.137/ 2000-01	11.05.2001	Financing of Equities and Investment in Shares.
67	DBOD No. BP.BC.116/ 21.04.048/2000-01	02.05.2001	Monetary and Credit Policy Measures 2001-2002
68	DBOD.BP.BC.51/21.04.137/2000-2001	10.11.2000	Bank Financing of equities and investments in shares
69	DBOD.No.BP.1577/21.03.054/2000	24.01.2000	Prudential Credit Exposure Limits

70	DBOD.No.BP.BC.121/21.04.124/ 99	03.11.1999	Monetary and Credit Policy Measures.
71	DBOD.No.BP.BC.35/21.01.002/99	24.04.1999	Monetary and Credit Policy Measures.
72	DBOD.No.Dir.BC.13/13.07.05/99	23.02.1999	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
73	DBOD.No.Dir.BC.2/13.07.05/99	29.01.1999	Bridge Loans
74	DBOD.No.IBS.BC.104/23.37.001/98-99	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.
75	DBOD.No.BP.BC.103/21.01.002/ 98	31.10.1998	Monetary and Credit Policy Measures
76	DBOD.No.Dir.BC.90/13.07.05/98	28.08.1998	Bank Finance against Shares and Debentures - Master Circular.
77	DBOD.No.Dir.BC.78/13.07.05/98-99 dated	08.08.1998	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
78	DBOD.No.Dir.BC.36/13.03.00/98	29.04.1998	Monetary and Credit Policy Measures
79	IECD.No.13/08.12.01/97-98	27.10.1997	Grant of Bridge Loan Facility by Banks
80	DBOD.No.Dir.BC.138/13.07.05/97-98	21.10.1997	Bridge Loans
81	DBOD.No.BP.BC.99/21.03.054/97 dated	02.09.1997	Limit on Credit Exposure to Individual / Group Borrowers.
82	DBOD.No.Dir.BC.60/13.07.05/97	28.05.1997	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
83	DBOD.No.Dir.BC.43/13.07.05/97	15.04.1997	Advances against Shares.
84	DBOD.No.Dir.BC.42/13.07.05/97	15.04.1997	Limits on Credit Exposure to Individual/Group Borrowers - Advances against Security of Term Deposits.
85	DBOD.No.BP.BC.161/21.03.054/96	19.12.1996	Limits on Credit Exposure to Individual/Group Borrowers - Advances against Security of Term Deposits.
86	DBOD.No.Dir.BC.148/13.07.05/96	18.11.1996	Investment in Bonds Issued by Public Sector Undertakings.
87	DBOD.No.Dir.BC.145/13.07.05/96	25.10.1996	Investment in Shares and Debentures of Corporate Bodies.
88	DBOD.No.BP.BC.109/21.03.053/96	09.08.1996	Certificate of Deposits (CDs) Scheme.
89	DBOD.No.IBS.BC.54/23.61.001/ 96	18.04.1996	Limits on Credit Exposures to Individual/Group Borrowers.
90	DBOD.No.BP.BC.13/21.01.002/96	08.02.1996	Capital Adequacy Measures.

91	DBOD.No.FSC.BC.86/24.01.001/95-96	17.08.1995	Commitments in respect of Underwriting, etc. Obligations.
92	DBOD.No.Dir.BC.69/13.07.05/95	28.06.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
93	DBOD.No.Dir.BC.38/13.07.05/95	04.04.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
94	DBOD.IBS.BC.29/23.06.001/95	20.03.1995	Deployment of Foreign Funds in Indian Business
95	DBOD.No.28/13.07.05/95	10.03.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
96	DBOD.No.Dir.BC.1/13.07.05-95	06.01.1995	Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies
97	DBOD.No.Dir.BC.151/13.07.05/94	28.12.1994	Ceiling on Credit Exposure to Individual/Group Borrowers - Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
98	DBOD.No.BP.BC.133/21.03.054/94	11.11.1994	Ceiling on Credit Exposure to Individual/Group Borrowers - Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers
99	DBOD.No.524/23.61.001/94-95	25.10.1994	Limits on Credit Exposure to Individual/Group of Borrowers
100	DBOD.No.Dir.BC.124/13.07.05/94	22.10.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
101	DBOD.No.BP.BC.97/21.01.023/94	19.08.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
102	DBOD.No.Dir.BC.61/13.07.05/94	18.05.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
103	DBOD.No.IBS.BC.52/23.01.001/94	04.05.1994	Indian Investment in Foreign Ventures Financing Equity Participations.
104	DBOD.No.BP.BC.36/21.03.054/ 94	30.03.1994	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers - Limits on Credit Exposure to Individual/Group Borrowers
105	DBOD.No.FSC.BC.18/24.01.001/ 93-94	19.02.1994	Equipment Leasing, Hire Purchase, Factoring, etc. Activities.

106	DBOD.No.Dir.BC.4/13.07.05-94	25.01.1994	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
107	DBOD.No.Dir.BC.3/13.07.05-94	24.01.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
108	DBOD.No.BP.BC.211/21.01.001-93	28.12.1993	Restrictions on Credit to Certain Sectors - Real Estate Loans.
109	DBOD.No.Dir.BC.176/13.07.05-93	11.10.1993	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers
110	DBOD.No.Dir.BC.145/13.07.05/93	30.07.1993	Underwriting Activity - Devolvement on Underwriters.
111	D.O.IECD.No.2/CMD.GA/Gen/92-93	04.07.1992	Group Approach.
112	IECD.No.7/CMD.GA/GEN/91-92	29.07.1991	Group Accounts.
113	DBOD.No.Dir.BC.51/C.96(SD/PSB)-90	26.11.1990	Holdings of Corporate Shares & Debentures and Public Sector Bonds.
114	IECD.No.IRD.24/IR-A/90-91	23.11.1990	Rehabilitation of Sick/Weak Industrial Units - Exemption of Individual Bank's Exposure from the Application of Existing Ceilings Prescribed Under.
115	DBOD.No.Dir.BC.35/C.96(Z)-90	22.10.1990	Bank Guarantee Scheme
116	DBOD.No.FSC.BC.27/C.469-89	29.09.1989	'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.
117	DBOD.No.FSC.BC.26/C.469-89	29.09.1989	Commitments in respect of Public Issues of Shares, Debentures, etc.
118	DBOD.No.BP.BC.132/66-89	26.05.1989	Limits on Credit Exposures to Individual/Group of Borrowers
119	DBOD.No.Dir.BC.103/C.347(PSB)-89	03.04.1989	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
120	DBOD.No.Dir.BC.85/C.347(PSB)-89	01.03.1989	Holdings of Corporate Shares & Debentures and Public Sector Bonds.
121	DBOD.No.Dir.BC.153/C.347(PSB)-88	18.06.1988	Investments in Holdings of Public Sector Bonds.
122	DBOD.No.Dir.BC.106/C.96(S&D)-88	17.03.1988	Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies.
123	DBOD.No.Dir.BC.91/C.347(PSB)-88	06.02.1988	Holdings of Corporate Shares & Debentures and Public Sector Bonds.
124	DBOD.No.IBS.130/13-88	20.01.1988	Financing of Indian Joint Ventures Abroad.

125	DBOD.No.Dir.BC.21/C.347(PSB)-87	11.08.1987	Investment in and Underwriting of Shares, Debentures and Public Sector Bonds.
126	DBOD.No.Dir.BC.61/C.347(PSB)-87	09.06.1987	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
127	DBOD.No.Dir.BC.60/C.347(PSB)-87	08.06.1987	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
128	DBOD.No.GC.BC.55/C.408C(P)-87	28.05.1987	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers.
129	DBOD.No.GC.BC.131/C.408C(P)-86	25.11.1986	Investment in and Underwriting of Shares and Debentures of Corporate Bodies.
130	DBOD.No.Sch.68/C.109-72	31.07.1972	Bank Guarantee Scheme.
131	DBOD.No.666/C.96/(Z)-67 dated 3.5.1967	03.05.1967	Bank Guarantee Scheme