



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
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RBI/2015-16/72  
DNBR.(PD-MGC).C.C.No.02/23.11.001/2015-16

July 1, 2015

The Chairman / CEOs of  
All Mortgage Guarantee Companies

Dear Sir,

**Notification as Amended upto June 30, 2015**  
**'Mortgage Guarantee Companies Investment (Reserve Bank) Directions, 2008'**

As you are aware, in order to have all current instructions on the subject at one place, the Reserve Bank of India issues updated circulars / notifications. The instructions contained in the notification No.DNBS(MGC)5/CGM (PK)-2008 dated February 15, 2008 updated as on June 30, 2015 are reproduced below. The updated Notification has also been placed on the RBI web-site (<http://www.rbi.org.in>).

Yours faithfully,

(C D Srinivasan)  
Chief General Manager

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

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**Reserve Bank of India  
Department of Non-Banking Regulation  
Central Office,  
Centre I, World Trade Centre  
Cuffe Parade, Colaba  
Mumbai - 400 005**

**Notification DNBS(PD)MGC No.5/CGM(PK)-2008 February 15, 2008**

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 to issue the directions relating to the prudential norms as set out below, in exercise of the 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, gives to every Mortgage Guarantee Company the directions hereinafter specified.

**Short title, commencement and applicability of the directions :**

1. (i) These directions shall be known as the "Mortgage Guarantee Companies Investment (Reserve Bank) Directions, 2008".  
  
(ii) These directions shall come into force with immediate effect.  
  
(iii) The provisions of these directions shall apply to every Mortgage Guarantee Company which has been granted Certificate of Registration by the Reserve Bank of India.

**Definitions**

2. (1) For the purpose of these directions, unless the context otherwise requires :

(i) "break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;

(ii) "carrying cost" means book value of the assets and interest accrued thereon but not received;

(iii) "earning value" means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate :

(a) in case of predominantly manufacturing company, eight per cent;

(b) in case of predominantly trading company, ten per cent; and

(c) in case of any other company, including a non-banking financial company, twelve per cent;

**Note :** If, an investee company is a loss making company, the earning value will be taken at zero;

(iv) "fair value" means the mean of the earning value and the break up value;

(v) "Mortgage Guarantee Company" means a company registered with the Bank as mortgage guarantee company as defined in "Mortgage Guarantee Companies Prudential Norms (Reserve Bank) Directions, 2008;

(vi) "net asset value" means the latest declared net asset value by the mutual fund concerned in respect of that particular scheme;

(vii) 'non-performing asset' (NPA) for the purpose of income recognition on investments by mortgage guarantee companies means an asset, in respect of which, interest or principal or amortization obligations have remained overdue for a period of 90 days or more.

(2) Other words or expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 (2 of 1934) or Mortgage Guarantee Company Prudential Norms (Reserve Bank) Guidelines, 2008 contained in Prudential Norms (MGC) No. DNBS.(PD)MGC 4/CGM (PK)-2008 dated February 15, 2008, shall have the same meaning as assigned to them under that Act or that Directions. Any other words or expressions not defined in that Act or that Directions, shall have the same meaning assigned to them in the Companies Act, 1956 (1 of 1956).

### **Investment Policy for Mortgage Guarantee Companies**

3. (i) A mortgage guarantee company shall invest only in the following instruments :

- a) Government Securities;
- b) Securities of corporate bodies / public sector undertakings guaranteed by Government;
- c) Fixed Deposit / Certificate of Deposits / bonds of Scheduled Commercial banks / PFIs;
- d) listed and rated debentures / bonds of corporates;
- e) fully debt oriented Mutual Fund Units;
- f) unquoted Government securities and Government guaranteed bonds.

(ii) No other investment including investment in subsidiaries and joint ventures would be permitted. However, a mortgage guarantee company may hold investments in equity shares of any company which may be quoted or unquoted or other unquoted investments acquired in satisfaction of its debts which shall be disposed of by the mortgage guarantee company within a period of three years or within such period as extended by the Bank, from the date of such acquisition.

### **Pattern of Investment**

4. (i) A mortgage guarantee company shall hold not less than 25% of its total investment portfolio in Central and State Government securities.

(ii) The remaining investments may be invested as the Board considers prudent, but with a ceiling of 25% in any one category i.e. listed and rated corporate bonds and debentures or debt oriented mutual fund units, etc.

(iii) The Board may fix an appropriate sub-limit for individual investments within each category of instruments as specified in paragraph 3(i) above of these directions.

(iv) The Minimum Investment Grade Rating (MIGR) assigned by the SEBI registered Rating Agencies would be the requirement for investment by MGC in bonds / debentures and debt oriented Mutual Funds.

### **Income recognition**

5. (i) Mortgage Guarantee Companies may book income on accrual basis on securities of corporate bodies / public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government, provided interest is serviced regularly and as such is not in arrears.

(ii) Mortgage Guarantee Companies may book income from dividend on shares of corporate bodies on accrual basis provided dividend on the shares has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payments is established.

(iii) Mortgage Guarantee Companies may book income from Government securities and bonds and debentures of corporate bodies on accrual basis, where interest rates on these instruments are pre-determined and provided interest is serviced regularly and as such is not in arrears.

(iv) Mortgage Guarantee Companies should book income from units of mutual funds on cash basis.

### **Accounting of investments**

6. (1) (i) Quoted investments shall, for the purposes of valuation, be grouped into the following categories, viz.,

(a) Government securities including treasury bills,

(b) Government guaranteed bonds / securities;

(c) bonds of banks / PFIs;

(d) debentures / bonds of corporates; and

(e) Units of mutual fund.

<sup>1</sup> (ii) Quoted investments for each category except Government Securities including treasury bills, Government guaranteed bonds or securities shall be valued at cost or market value whichever is lower. The investments made towards Government securities, quoted or otherwise, government guaranteed securities and bonds not exceeding the capital may be treated as "held to maturity" for the purpose of valuation and accounted for accordingly. <sup>2</sup>The company is allowed to effect the transfer of the government security from HTM category to AFS category at the beginning of each half year, on April 01 or October 01, with the approval of the Board, provided the principal amount is reinvested in another Government security. Investments classified under "Held to Maturity" need not be marked to market and will be carried at acquisition cost, unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity. The book value of

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<sup>1</sup> Inserted vide [Notification No. DNBS\(PD\) MGC No. 9/PCGM\(KKV\) dated August 08, 2014](#)

<sup>2</sup> Inserted vide letter No. DNBR.PD(MGC) No. 853/03.11.001/2014-15 dated May 05, 2015

the security should continue to be reduced to the extent of the amount amortised during the relevant accounting period. However, if any security out of this bouquet is traded before maturity the entire category will be treated as securities held for trade and will have to be marked to market to as detailed in clause (iii) herein below.

(iii) The investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

(iv) All other investments shall be marked to market in accordance with these Directions.

(2) Unquoted investments acquired in satisfaction of its debts shall be valued as under :

(a) Unquoted investments in the units of mutual funds shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme;

(b) Unquoted equity shares shall be valued at cost or break up value, whichever is lower. However, mortgage guarantee companies may substitute fair value for the break up value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at Rupee one per company;

(c) Unquoted preference shares shall be valued at cost or face value, whichever is lower.

**Note :** Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

7. The MGC with the approval of the Board shall frame an investment policy in tune with these directions.

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