

May 10, 2007

All Scheduled Commercial Banks  
(Excluding RRBs and LABs)

Dear Sir,

**Annual Policy Statement for the year 2007-08 -  
Extension of Credit Facilities to Overseas Step-down Subsidiaries  
of Indian Corporates**

Please refer to our circular DBOD. IBD. BC. No.41/ 23.37.001/ 2006-07 dated November 6, 2006 in terms of which the prudential limit on funded / non-funded credit facilities extended by banks in India to Indian Joint Ventures (JVs) (where the holding by the Indian company is more than 51%) / Wholly Owned Subsidiaries (WOS) abroad, was enhanced from the then existing limit of 10% to 20% of their unimpaired capital funds (Tier I and Tier II capital).

2. In this connection, a reference is invited to paragraph 173 of the Governor's Annual Policy Statement for the year 2007-08 (copy of the paragraph enclosed as Annex). Accordingly, it has been decided to permit banks in India to extend funded and/or non-funded credit facilities to wholly owned step-down subsidiaries of subsidiaries of Indian companies (where the holding by the Indian company is more than 51%) abroad.

3. Before granting the facility, banks should ensure that :

- The set up of the step down subsidiary should be such that the banks can effectively monitor the facilities granted by them.
- Proper systems for management of credit and interest rate risks arising out of such cross border lending are in place.
- Section 25 of the Banking Regulation Act, 1949 is complied with.
- The resource base for such lending should be the funds held in foreign currency accounts such as FCNR (B), EEFC, RFC etc. in respect of which the banks have to manage exchange risk.
- Maturity mismatches arising out of such transactions are within the overall gap limits approved by RBI.
- All existing safeguards and prudential guidelines relating to capital adequacy, exposure norms etc. applicable to domestic funded /non-funded exposures are adhered to.
- Grant of such facilities is to be based on proper appraisal and commercial viability of the project and the countries where the step-down subsidiary is located.
- There should be no restriction in the countries where the step-down subsidiaries are located in regard to (a) the companies obtaining foreign currency loans and on repatriation or repayment thereof and (b) non-resident banks to have a legal charge on securities / assets in the country as well as right of disposal, in case of need.

4. Please acknowledge receipt.

Yours faithfully

(Vinay Baijal)  
Chief General Manager

**Annex**

**Para 173 of Annual Policy Statement 2007-08**

173. Over the years, Indian industry has been successfully building up its presence abroad with increasing overseas acquisitions and as a consequence, the exposure of banks to such financing is rising. As overseas markets are expected to offer better opportunities for growth and bring in higher revenue and volumes, it is proposed:

•to permit Indian banks to extend credit and non-credit facilities to step-down subsidiaries which are wholly owned by the overseas subsidiaries of the Indian corporates, within the existing prudential limits and some additional safeguards.