

May 8, 2008

The Chairman/Chief Executive Officer
All Scheduled Commercial Banks (excluding Local Area Banks and RRBs)

Dear Sir

**Prudential Norms on Asset Classification Pertaining to Advances –
Infrastructure projects under implementation and involving time overrun**

Please refer to paragraph 4.2.17(iv) of our Master Circular No.DBOD.No.BP.BC.12/21.04.048/2007-08 dated July 2, 2007 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances in terms of which banks have been advised that in respect of projects financed by them after 28th May 2002, the date of completion of the project should be clearly spelt out at the time of financial closure of the project. In such cases, if the date of commencement of commercial production extends beyond a period of one year, in respect of infrastructure projects alone w.e.f. 31st March, 2007, the account should be treated as sub-standard.

2. As stated at paragraph 164 (reproduced in the Annex) of the Annual Policy Statement released on April 29, 2008, on a representation made in regard to delays in completion of infrastructure projects for legal and other extraneous reasons, it has been decided to modify the asset classification norms in respect of infrastructure projects as under:

“In case of infrastructure projects financed by the bank after 28th May 2002, the date of completion of the project should be clearly spelt out at the time of financial closure of the project and if the date of commencement of commercial production extends beyond a period of two years (as against the current norm of one year) after the date of completion of the project, as originally envisaged, the account should be treated as sub-standard. The revised instructions come into force w.e.f. 31st March 2008”.

Yours faithfully

[P. Vijaya Bhaskar]
Chief General Manager

164. On a representation made in regard to delays in completion of infrastructure projects for legal and other extraneous reasons, the Reserve Bank undertook a review of select projects and concluded that there is merit in this representation. Accordingly, it has been decided that:

In case of infrastructure projects to be financed by banks, the date of completion of the project should be clearly spelt out at the time of financial closure of the project and if the date of commencement of commercial production extends beyond a period of two years (as against the current norm of one year) after the date of completion of the project as originally envisaged, the account should be treated as sub-standard. The revised instructions will be effective from March 31, 2008.