

June 4, 2008

The CEOs of the All-India term-lending and Refinancing Institutions

(Exim Bank, NABARD, NHB, SIDBI)

Dear Sir,

Valuation of Non-SLR securities issued by the Government of India

Please refer to our Master Circular DBOD.No. FID.FIC.3/01.02.00/ 2007-08 dated July 2, 2007 on 'Prudential Norms for classification, valuation and operations of investment portfolio by FIs'.

2. It has been observed that, over the years, the Government of India has, from time to time, issued several special securities which do not qualify for the purpose of complying with the SLR requirements of banks. Such Government securities are governed by a separate set of terms and conditions and entail a higher degree of illiquidity spread. Currently, the guidelines issued by FIMMDA regarding the valuation of such non-SLR/Debt securities provide that such securities be valued by applying a mark-up of 50 basis points (bps) above the corresponding yield on Government of India securities.

3. The issue of valuation of such special securities has since been examined. It has been decided that, for the limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities. This amendment would come into force from the financial year 2008–09.

4. It may be noted that, at present, such special securities comprise: Oil Bonds, Fertiliser Bonds, bonds issued to Unit Trust of India, IFCI Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.

Yours faithfully,

(Vinay Baijal)
Chief General Manager