



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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RBI/2010-11/409

UCB (PCB) BPD Cir.No. 36 /16.20.000/2010-11

February 18, 2011

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

Prudential norms on investment in Zero Coupon Bonds

Please refer to paragraph 2 (iii) (c) of [circular UBD\(PCB\) BPD Cir No.46/16.20.000/2008-09 dated January 30, 2009](#) on investments in Non-SLR securities by Primary (Urban) Co-operative Banks.

2. It is observed that banks are investing in long term Zero Coupon Bonds (ZCBs) issued by corporates including those issued by Non-Banking Financial Companies (NBFCs). As the issuers of ZCBs are not required to pay any interest or installments till the maturity of bonds, credit risk in such investments would go unrecognized till the maturity of bonds and this risk could especially be significant in the case of long term ZCBs. Such issuances and investments if done on a large scale could pose systemic problems.

3. In view of the above, it has been decided that banks should not, henceforth invest in ZCBs unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments/securities (Government bonds). The other instructions contained in paragraph 2 (iii)(c) of circular dated January 30, 2009 remain unchanged.

Yours faithfully,

(Uma Shankar)
Chief General Manager

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