भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Bonds issued by State Distribution Companies (Discoms) – Guidelines on Valuation

Government of India had formulated and approved a Scheme for Financial Restructuring of State Owned Power Discoms to enable their turnaround and ensure their long term viability (Ministry of Power, GoI Office Memorandum No.20/11/2012-APDRP dated October 5, 2012). The Scheme, inter-alia, envisaged the conversion of 50 per cent of the outstanding Short Term Liabilities (as on March 31, 2012) of Discoms to banks into bonds. These bonds will be issued by Discoms and will be serviced by them for a specified initial period till they are taken over by the State Governments in a phased manner. However, these bonds will be duly backed by the guarantees of the respective State Governments, till the time their liabilities are taken over by them from the Discoms. While issuing guarantee to the Discoms for issuance of bonds, the State Governments are required to take into consideration their respective guarantee limits as per relevant Act/Rules, if any.

2. As these bonds are to be acquired by banks under special circumstances and these have two distinct features, viz., (i) issued and serviced by State Discoms with the guarantee of the respective State Governments during the initial period and (ii) issued and serviced by the State Governments during the latter period, the following methodology will be applicable for valuation of such bonds:

(i) If these bonds are traded and quoted, they will be valued at their current 'Market Value' as defined in paragraph 3.5 of our 'Master Circular - Prudential norms for

Classification, Valuation and Operation of Investment Portfolio by Banks' dated July 2, 2012.

(ii) In case the bonds are not traded and quoted, they will be valued on the YTM basis. The relevant YTM will be YTM rates for Central Government Securities of equivalent maturities as put out by FIMMDA on the valuation day with the following mark-ups:

(a) During the period when bonds' liabilities are with the State Discoms and

- If guaranteed by respective State Governments – 75 basis points
- If not guaranteed by respective State Governments – 100 basis points

(b) During the period when bonds' liabilities are with the respective State Governments – 50 basis points.

3. Apart from the above, the bonds will continue to be governed by extant prudential norms as applicable to non-SLR securities.

Yours faithfully,

(Chandan Sinha)
Principal Chief General Manager