Prudential Guidelines on Banks' Investment in non-SLR Securities

December 10, 2003

Reserve Bank of India had issued guidelines on investments by banks in non-SLR securities on November 12, 2003. With a view to operationalising the guidelines a series of meetings were held with banks and other market participants and a transition period up to March 31, 2004 was provided. Further discussions were held with market participants on the actual implementation and for considering certain relaxations needed for a smooth transition, Reserve Bank has issued the following clarifications and modifications today:

Coverage

(a) It is confirmed that the guidelines will not apply to the following categories of non-SLR investment:

- (i) Units of equity oriented mutual fund schemes, viz., those schemes where any part of the corpus can be invested in equity
- (ii) Venture capital funds
- (iii) Commercial Paper
- (iv) Certificates of Deposit

(b) It is confirmed that the guidelines apply to all types of bonds, including

- (v) Capital gains bonds,
- (vi) Bonds eligible for priority sector status,
- (vii) Bonds issued by Central or State public sector undertakings, with or without government guarantees,
- (viii) Bonds issued by banks and financial institutions.

(c) It is confirmed that for the purposes of computation of the prudential limits prescribed in the guidelines, the denominator viz., 'non-SLR investments', would include investment under the following four categories in Schedule 8 to the balance sheet viz. 'shares', 'bonds & debentures', 'subsidiaries/ joint ventures' and 'others'.

Modifications

(a) Investment in the following will not be reckoned as 'unlisted non-SLR securities' for computing compliance with the prudential limits prescribed in the above guidelines:

- (ix) Security Receipts issued by Securitisation Companies / Reconstruction Companies registered with RBI.
- (x) Investment in Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS) which are rated at or above the minimum investment grade. However, there will be close monitoring of exposures to ABS on a bank specific basis based on monthly reports to be submitted to RBI as per proforma being separately advised by the Department of Banking Supervision.

Extension of time

(a) Considering the time required by issuers to get their existing unlisted debt issues listed on the stock exchanges, the following transition time is provided:

(xi) Investment by banks in units of mutual fund schemes where the entire corpus is invested in debt securities will be outside the purview of the above guidelines until December 31, 2004.

(xii) With effect from January 1, 2005 only investment in units of such mutual fund schemes which have an exposure to unlisted securities of less than 10 per cent of the corpus of the fund will be treated on par with listed securities for the purpose of compliance with the prudential limits prescribed in the above guidelines.

(xiii) Banks may invest until March 31, 2004 in the existing unlisted securities (those issued on or before November 30, 2003). With effect from April 1, 2004 banks may also invest in the above category of unlisted securities until December 31, 2004 provided the issuers have applied to the stock exchange(s) for listing and the security is rated minimum investment grade.

(i) Banks may also invest in unlisted securities issued after November 30, 2003 up to 10 per cent of the incremental non-SLR investments over the outstanding non-SLR investments as on November 30, 2003 up to December 31, 2004.

With effect from January 1, 2005 only banks whose investment in unlisted non-SLR securities are within the prudential limits prescribed in the above guidelines may make fresh investment in such securities and up to the prudential limits.

P.V. Sadanandan
Manager

Press Release: 2003-2004/724