

June 22, 2004

RBI rationalises Investment Pattern for RNBCs

The Reserve Bank of India (RBI) today announced rationalisation of the investment pattern prescribed for residuary non-banking companies (RNBCs) for imparting greater liquidity and safety to the investments of RNBCs and thus enhancing the protection available to the depositors. A summary of important changes in the present norms is given below:

- (i) Presently the RNBCs are required to invest 80% of the aggregate liabilities to depositors (including investment under Section 45-IB of the RBI Act) in the manner directed by RBI. The directed investments will be increased from the present level of 80 per cent to 90 per cent on and from April 1, 2005 and to 100 per cent on and from April 1, 2006. Accordingly, discretionary investments (presently lower of 20 per cent of the deposits or 10 times the NOF) would be restricted to 10 per cent of the deposits or equal to NOF on and from the April 1, 2005 and there would be no such discretion on and from April 1, 2006.
- (ii) Investments in fixed deposits/certificates of deposit (CDs) of scheduled commercial banks (SCBs) would continue as hitherto at not less than 10 per cent of deposits. However, only the CDs of financial institutions (FIs) specified in the schedule to the RBI Notification No. DNBS. 178/CGM (DSN) - 2004 dated June 22, 2004 would be eligible for investment under this category provided these CDs are rated not less than AA+.
- (iii) The companies will be required to invest an additional 15 per cent of the deposits in securities issued by Central and State Governments as part of their market borrowing programmes.
- (iv) The bonds and debentures in which the investments can be made will require rating of not less than AA+ and listing on one of the stock exchanges.
- (v) The investment in units of mutual funds would now be restricted only to debt oriented schemes with a sub limit of not more than 2 % in any one mutual fund.
- (vi) The exposure to a single SCB would be restricted to one per cent of the aggregate deposit liabilities of the SCB as on March 31 of the previous accounting year and to a single specified FI to not more than one per cent of the deposits of the RNBC.
- (vii) While the new norms on directed investments will be effective from July 1, 2004 the reduction in discretionary investment will begin from April 1, 2005. The existing investments may continue to be held till their sale/ maturity but are not permitted to be renewed / rolled over.

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