MASTER CIRCULAR ON EXPOSURE NORMS

A. Purpose
This Master Circular provides a framework of the rules/regulations/instructions issued by the Reserve Bank of India to Scheduled Commercial Banks relating to credit exposure limits for single/ group borrowers and credit exposure to specific industry or sectors and the capital market exposure of banks.
B. Classification
A statutory guideline issued by the Reserve Bank in exercise of the powers conferred by the Banking Regulation Act, 1949.
C. Previous instructions
This Master Circular consolidates and updates the instructions on the above subject contained in the circulars listed in **Appendix.**
D. Application
To all scheduled commercial banks, excluding Regional Rural Banks.

1 INTRODUCTION

As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the Reserve Bank of India has advised the banks to fix limits on their exposure to specific industry or sectors and has prescribed regulatory limits on banks' exposure to single and group borrowers in India. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against / investments in shares, convertible debentures /bonds, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs). Banks should comply with the following guidelines relating to exposure norms.

2 GUIDELINES

2.1 Credit Exposures to Single/Group Borrowers

2.1.1 Ceilings

2.1.1.1 The exposure ceiling limits would be 15 percent of capital funds in case of a single borrower and 40 percent of capital funds in the case of a borrower group. The capital funds for the purpose will comprise of Tier I and Tier II capital as defined under capital adequacy standards (please also refer to paragraph 2.1.3.5 of this Master Circular).
2.1.1.2 Bank's clearing exposure to a Qualifying CCP (QCCP) will be kept outside of the exposure ceiling of 15 per cent of its capital funds applicable to a single counterparty. Clearing exposure would include trade exposure and default fund exposure as defined in the guidelines on capital requirements for banks' exposure to central counterparties issued vide Circular DBOD.No.BC.28/21.06.201/ 2013-14 dated July 2, 2013. Other exposures to QCCPs such as loans, credit lines, investments in the capital of CCP, liquidity facilities, etc. will continue to be within the existing exposure ceiling of 15 per cent of capital funds to a single counterparty. However, all exposures of a bank to a non-QCCP should be within this exposure ceiling of 15 per cent.
2.1.1.3 Credit exposure to a single borrower may exceed the exposure norm of 15 percent of the bank's capital funds by an additional 5 percent (i.e. up to 20 percent) provided the additional credit exposure is on account of extension of credit to infrastructure projects. Credit exposure to borrowers belonging to a group may exceed the exposure norm of 40 percent of the bank's capital funds by an additional 10 percent (i.e., up to 50 percent), provided the additional credit exposure is on account of extension of credit to infrastructure projects. The definition of infrastructure lending and the list of sub-sectors under infrastructure is included in the Master Circular on 'Loans and Advances – Statutory and other Restrictions' dated July 1, 2015.
2.1.1.4 In addition to the exposure permitted under paragraphs 2.1.1.1 and 2.1.1.2 above, banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower (single as well as group) up to a further 5 percent of capital funds subject to the borrower consenting to the banks making appropriate disclosures in their Annual Reports.

2.1.1.5 With effect from May 29, 2008, the exposure limit in respect of single borrower has been raised to twenty five percent of the capital funds, only in respect of Oil Companies who have been issued Oil Bonds (which do not have SLR status) by Government of India. In addition to this, banks may in exceptional circumstances, as hitherto, in terms of paragraph 2.1.1.3 of the Master Circular, consider enhancement of the exposure to the Oil Companies up to a further 5 percent of capital funds.

2.1.1.6 The bank should make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where the bank had exceeded the prudential exposure limits during the year.

2.1.1.7 Exposures to NBFCs

The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC / NBFC-AFC (Asset Financing Companies) should not exceed 10% / 15% respectively, of the bank's capital funds as per its last audited balance sheet. Banks may, however, assume exposures on a single NBFC / NBFC-AFC up to 15%/20% respectively, of their capital funds provided the exposure in excess of 10%/15% respectively, is on account of funds on-lent by the NBFC / NBFC-AFC to the infrastructure sector. Exposure of a bank to Infrastructure Finance Companies (IFCs) should not exceed 15% of its capital funds as per its last audited balance sheet, with a provision to increase it to 20% if the same is on account of funds on-lent by the IFCs to the infrastructure sector. Further, banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together. Infusion of capital funds after the published balance sheet date may also be taken into account for the purpose of reckoning capital funds. Banks should obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Banking Supervision) before reckoning the additions to capital funds.

2.1.1.8 Lending under Consortium Arrangements

The exposure limits will also be applicable to lending under consortium arrangements.

2.1.1.9 Bills discounted under Letter of Credit (LC)

In cases where the bills discounting/purchasing/negotiating bank and LC issuing bank are different entities, bills purchased/discounted/negotiated under LC (where the payment to the beneficiary is not made 'under reserve'), will be treated as an exposure on the LC issuing bank and not on the third party / borrower. However, in cases where the bills discounting/purchasing/negotiating bank and LC issuing bank are part of the same bank, i.e. where LC is issued by the Head Office or branch of the same bank, then the exposure should be taken on the third party/borrower and not on the LC issuing bank. In the case of negotiations 'under reserve', the exposure should be treated as on the borrower.

2.1.1.10 Disinvestment Programme of the Government of India

On account of banks' financing of acquisition of PSU shares under the Government of India disinvestment programmes, if any bank, is likely to exceed the regulatory ceiling of single / group borrower limit, RBI will consider relaxation on specific requests from banks in the singlel/group credit exposure norms on a case by case basis, provided that the bank's total exposure to the borrower, net of its exposure due to acquisition of PSU shares under the Government of India disinvestment programme, should be within the prudential singlel/group borrower exposure ceiling prescribed by RBI.

2.1.2 Exemptions

2.1.2.1 Rehabilitation of Sick/Weak Industrial Units

The ceilings on single/group exposure limits are not applicable to existing/additional credit facilities (including funding of interest and irregularities) granted to weak/sick industrial units under rehabilitation packages.

2.1.2.2 Food credit

Borrowers, to whom limits are allocated directly by the Reserve Bank for food credit, will be exempt from the ceiling.

2.1.2.3 Guarantee by the Government of India

The ceilings on single /group exposure limit would not be applicable where principal and interest are fully guaranteed by the Government of India.

2.1.2.4 Loans against Own Term Deposits

Loans and advances (both funded and non-funded facilities) granted against the security of a bank's own term deposits should not be reckoned for computing the exposure to the extent that the bank has a specific lien on such deposits.

2.1.2.5 Exposure on NABARD

The ceiling on single/group borrower exposure limit will not be applicable to exposure assumed by banks on NABARD. The individual banks are free to determine the size of the exposure to NABARD as per the policy framed by their respective Board of Directors. However, banks may note that there is no exemption from the prohibitions relating to investments in unrated non-SLR securities prescribed in terms of the Master Circular on Prudential Norms for Classification, Valuation and Operations of Investment Portfolio by Banks, as amended from time to time.

2.1.3 Definitions

2.1.3.1 Exposure

Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding as the exposure.

2.1.3.2 Measurement of Credit Exposure of Derivative Products

For the purpose of exposure norms, banks shall compute their credit exposures, arising on account of the interest rate & foreign exchange derivative transactions and gold, using the 'Current Exposure Method', as detailed below. While computing the credit exposure banks may exclude 'sold options', provided the entire premium / fee or any other form of income is received / realised. Bilateral netting of Mark-To-Market (MTM) values arising on account of such derivative contracts cannot be permitted. Accordingly, banks should count their gross positive MTM value of such contracts for the purposes of capital adequacy as well as for exposure norms.

Current Exposure Method

(i) The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of current credit exposure and potential future credit exposure of these contracts. While computing the credit exposure banks may exclude 'sold options', provided the entire premium / fee or any other form of income is received / realized.

(ii) Current credit exposure is defined as the sum of the positive mark-to-market value of these contracts. The Current Exposure Method requires periodical calculation of the current credit exposure by marking these contracts to market, thus capturing the current credit exposure.

(iii) Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument. **CCF for market related off-balance sheet items**

Residual Maturity		**Credit conversion factors**
Interest Rate Contracts		**Exchange Rate Contracts & Gold**
One year or less	0.50%	2.00%
Over one year to five years	1.00%	10.00%
Over five years	3.00%	15.00%

2.3.2.3 The above-mentioned ceilings (sub-paragraphs A and B) are the maximum permissible and a bank's Board of Directors is free to adopt a lower ceiling for the bank, keeping in view its overall risk profile and corporate strategy. Banks are required to adhere the ceilings on an ongoing basis.

2.3.2.4 If acquisition of equity shares, as indicated in paragraph 5.5 of circular DBOD.BP.BC.No.97/21.04.132/2013-14 dated February 26, 2014, results in exceeding the extant regulatory Capital Market Exposure (CME) limit, the same will not be considered as a breach of regulatory limit. However, this will require reporting to RBI and disclosure by banks in the Notes to Accounts in Annual Financial Statements. On account of banks financing acquisition of PSU shares under the Government of India disinvestment programmes, if any bank is likely to exceed the regulatory ceiling the capital market exposure, RBI will consider requests from these banks for relaxation of the ceiling on a case by case basis, subject to adequate safeguards regarding margin, bank's exposure to capital market, internal control and risk management systems, etc. The relaxation of ceiling will be considered in such a manner that the bank's exposure to capital market in all forms, net of its advances for financing of acquisition of PSU shares shall be within the regulatory ceiling limit.

2.3.3 Definition of Net Worth

Net worth would comprise Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets. No general or specific provisions should be included in computation of net worth. Infusion of capital through equity shares, either through domestic issues or overseas floats after the published balance sheet date, may also be taken into account for determining the ceiling on exposure to capital market. Banks should obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Banking Supervision) before reckoning the additions, as stated above.

2.3.4 Items excluded from Capital Market Exposure

The following items would be excluded from the aggregate exposure ceiling of 40 per cent of net worth and direct investment exposure ceiling of 20 per cent of net worth (wherever applicable):

i. Banks' investments in own subsidiaries, joint ventures, sponsored Regional Rural Banks (RRBs) and investments in shares and convertible debentures, convertible bonds issued by institutions forming crucial financial infrastructure such as National Securities Depository Ltd. (NSDL), Central Depository Services (India) Ltd. (CDSL), National Securities Clearing Corporation Ltd. (NSCCL), National Stock Exchange (NSE), Clearing Corporation of India Ltd., (CCIL), a credit information company which has obtained Certificate of Registration from RBI and of which the bank is a member, Multi Commodity Exchange Ltd. (MCX), National Commodity and Derivatives Exchange Ltd. (NCDEX), National Multi-Commodity Exchange of India Ltd. (NMCEIL), National Collateral Management Services Ltd. (NCMSL), National Payments Corporation of India (NPCI) and United Stock Exchange of India Ltd. (USEIL) and other All India Financial Institutions as given in **Annex 2**. After listing, the exposures in excess of the original investment (i.e. prior to listing) would form part of the Capital Market Exposure.

ii. Tier I and Tier II debt instruments issued by other banks;

iii. Investment in Certificate of Deposits (CDs) of other banks;

iv. Preference Shares;

v. Non-convertible debentures and non-convertible bonds;

vi. Units of Mutual Funds under schemes where the corpus is invested exclusively in debt instruments;

vii. Shares acquired by banks as a result of conversion of debt/overdue interest into equity under Corporate Debt Restructuring (CDR) mechanism;

viii Term loans sanctioned to Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries under the refinance scheme of Export Import Bank of India (EXIM Bank).
ix. With effect from April 16, 2008, banks may exclude their own underwriting commitments, as also the underwriting commitments of their subsidiaries, through the book running process, for the purpose of arriving at the capital market exposure of the solo bank as well as the consolidated bank. (However, the position in this regard would be reviewed at a future date).
x. Promoters shares in the SPV of an infrastructure project pledged to the lending bank for infrastructure project lending.
xi banks exposure to brokers under the currency derivates segment

2.3.5 Computation of exposure

For computing the exposure to the capital markets, loans/advances sanctioned and guarantees issued for capital market operations would be reckoned with reference to sanctioned limits or outstanding, whichever is higher. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding as the exposure. Further, banks' direct investment in shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds would be calculated at their cost price.

As regards Irrevocable Payment Commitments (IPC) issued by custodian banks in favour of Stock Exchange, the computation of Capital Market Exposure would be as follows:

i. The maximum risk to the custodian banks issuing IPCs would be reckoned at 50%, on the assumption of downward price movement of the equities bought by FIIs/ Mutual Funds on the two successive days from the trade date (T) i.e., on T+1 and T+2, of 20% each with an additional margin of 10% for further downward movement.

ii. Accordingly the potential risk on T+1 would be reckoned at 50% of the settlement amount and this amount would be reckoned as CME at the end of T+1 if margin payment / early pay in does not come in.

iii. In case there is early pay in on T+1, there will be no Capital Market exposure. By T+1, we mean 'end of day' (EOD) as per Indian Time. Thus, funds received after EOD as per Indian Time, will not be reckoned as early pay-in on T+1. CME will have to be computed accordingly.

iv. In case margin is paid in cash on T+1, the CME would be reckoned at 50% of settlement price minus the margin paid. In case margin is paid on T+1 by way of permitted securities to FIIs / Mutual Funds, the CME would be reckoned at 50% of settlement price minus the margin paid plus haircut prescribed by the Exchange on the securities tendered towards margin payment.

v. The IPC will be treated as a financial guarantee with a Credit Conversion Factor (CCF) of 100. However, capital will have to be maintained only on exposure which is reckoned as CME because the rest of the exposure is deemed to have been covered by cash/securities which are admissible risk mitigants as per Basel II. Thus capital is to be maintained on the amount taken for CME and the risk weight would be 125% thereon. As the nature of IPC remains the same irrespective of the client for whom it is issued, the measures prescribed for IPCs will be applicable to all IPCs issued by custodian banks.

2.3.6 Intra-day Exposures

At present, there are no explicit guidelines for monitoring banks' intra-day exposure to the capital markets, which are inherently risky. It has been decided that the Board of each bank should evolve a policy for fixing intra-day limits and put in place an appropriate system to monitor such limits, on an ongoing basis. The position will be reviewed at a future date.

2.3.7 Enhancement in limits

Banks having sound internal controls and robust risk management systems can approach the Reserve Bank for higher limits together with details thereof.

3. Prudential Limits on Intra-Group Exposure

To contain concentration and contagion risks arising out of ITEs, certain quantitative limits on financial ITEs and prudential measures for the non-financial ITEs have been imposed as under:
i Exposure should include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). However, exposure on account of equity and other regulatory capital instruments should be excluded while computing exposure to group entities.
ii Banks should adhere to the following intra-group exposure limits :
a. Single Group Entity Exposure

i. 5% of Paid-up Capital and Reserves in case of non-financial companies8 and unregulated financial services companies
ii. 10% of Paid-up Capital and Reserves in case of regulated financial services companies b. Aggregate Group Exposure
i. 10% of Paid-up Capital and Reserves in case of all non-financial companies and unregulated financial services companies taken together
ii. 20% of Paid-up Capital and Reserves in case of the group i.e. all group entities (financial and non-financial) taken together.
iii. Intra-group Exposures Exempted from the Prudential Limits
The following intra-group exposures would be excluded from the stipulated limits :
a. Banks' investments in the equity of group entities and other capital instruments are presently governed by the RBI Circulars DBOD.FSD.BC.62/24.01.001/2011-12 dated December 12, 2011 on 'Investments in Subsidiaries and Other companies - Guidelines' and DBOD.No.BP.BC.2/21.06.201/2013-14 dated July 1, 2013 on 'Basel III Capital Regulations'. Accordingly, banks' exposures to other banks / financial institutions in the group in form of equity and other capital instruments are exempted from the limits stipulated in above guidelines, and the extant instructions as cited above will continue to apply, subject to the prohibitions stipulated at iv below. b. Inter-bank exposures among banks in the group operating in India. However, prudential limits in respect of both outstanding borrowing and lending transactions in call / notice money market for scheduled commercial banks would continue to be governed by extant instructions on Call / Notice Money Market Operations.
c. Letters of Comfort issued by parent bank in favour of overseas group entities to meet regulatory requirements.
iv. Prohibited Exposures
Wherever a bank has been set-up under a NOFHC structure,
a. Bank cannot take any credit or investments (including investments in the equity / debt capital instruments) exposure on NOFHC, its Promoters / Promoter Group entities or individuals associated with the Promoter Group.
b. Bank cannot invest in the equity / debt capital instruments of any financial entities under the NOFHC. (for detailed instructions please refer to circular DBOD.No.BP.BC.96/21.06.102/2013-14 dated February 11, 2014)

4 Financing of equities and investments in shares
4.1 Advances against shares to individual

Loans against security of shares, convertible bonds, convertible debentures and units of equity oriented mutual funds to individuals from the banking system should not exceed the limit of Rs.10 lakh per individual if the securities are held in physical form and Rs. 20 lakhs per individual if the securities are held in demat form. Such loans are meant for genuine individual investors and banks should not support collusive action by a large group of individuals belonging to the same corporate or their inter-connected entities to take multiple loans in order to support particular scrips or stock-broking activities of the concerned firms. Such finance should be reckoned as an exposure to capital market. Banks should formulate, with the approval of their Board of Directors, a Loan Policy for granting advances to individuals against shares, debentures, and bonds keeping in view the RBI guidelines. As a prudential measure, banks may also consider laying down appropriate aggregate sub-limits of such advances.

4.2 Financing of Initial Public Offerings (IPOs)

Banks may grant advances to individuals for subscribing to IPOs. Loans/advances to any individual from the banking system against security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds should not exceed the limit of Rs.10 lakh for subscribing to IPOs. The corporates should not be extended credit by banks for investment in other companies' IPOs. Similarly, banks should not provide finance to NBFCs for further lending to individuals for IPOs. Finance extended by a bank for IPOs should be reckoned as an exposure to capital market.

4.3 Bank finance to assist employees to buy shares of their own companies

4.3.1 Banks may extend finance to employees for purchasing shares of their own companies under Employees Stock Option Plan(ESOP)/ reserved by way of employees' quota under IPO to the extent of 90% of the purchase price of the shares or Rs.20 lakh, whichever is lower. Finance extended by banks for ESOPs/ employees' quota under IPO would be treated as an exposure to capital market within the overall ceiling of 40 per cent of their net worth. These instructions will not be applicable for extending financial assistance by banks to their own employees for acquisition of shares under ESOPs/ IPOs, as banks are not allowed to extend advances including advances to their employees / Employees' Trusts set up by them for the purpose of purchasing their own banks' shares under ESOPs / IPOs or from the secondary market. This prohibition will apply irrespective of whether the advances are secured or unsecured.

4.3.2 Banks should obtain a declaration from the borrower indicating the details of the loans / advances availed against shares and other securities specified above, from any other bank/s in order to ensure compliance with the ceilings prescribed for the purpose.

4.3.3 Follow-on Public Offers (FPOs) will also be included under IPO.

4.4 Advances against shares to Stock Brokers & Market Makers

4.4.1 Banks are free to provide credit facilities to stockbrokers and market makers on the basis of their commercial judgment, within the policy framework approved by their Boards. However, in order to avoid any nexus emerging between inter-connected stock broking entities and banks, the Board of each bank should fix, within the overall ceiling of 40 per cent of their net worth as on March 31 of the previous year, a sub-ceiling for total advances to –

i. all the stockbrokers and market makers (both fund based and non-fund based, i.e. guarantees); and

ii. to any single stock broking entity, including its associates/ inter-connected companies.

4.4.2 Further, banks should not extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges**.**

4.5 Bank financing to individuals against shares
to joint holders or third party beneficiaries

While granting advances against shares held in joint names to joint holders or third party beneficiaries, banks should be circumspect and ensure that the objective of the regulation is not defeated by granting advances to other joint holders or third party beneficiaries to circumvent the above limits placed on loans/advances against shares and other securities specified above.

4.6 Advances against units of mutual funds

While granting advances against units of mutual funds, the banks should adhere to the following guidelines:

i) The units should be listed in the stock exchanges or repurchase facility for the units should be available at the time of lending.

ii) The units should have completed the minimum lock-in-period stipulated in the relevant scheme.

iii) The amount of advances should be linked to the Net Asset Value (NAV) / repurchase priceor the market value, whichever is less and not to the face value of the units.

iv) Advances against units of mutual funds (except units of exclusively debt oriented mutual funds) would attract the quantum and margin requirements as are applicable to advances against shares and debentures. However, the quantum and margin requirement for loans/ advances to individuals against units of exclusively debt-oriented mutual funds may be decided by individual banks themselves in accordance with their loan policy.

v) The advances should be purpose oriented taking into account the credit requirement of the investor. Advances should not be granted for subscribing to or boosting up the sales of another scheme of a mutual fund or for the purchase of shares/ debentures/ bonds etc.

4.7 Bank Loans for Financing Promoters' Contributions

These loans will also be subject to single/group of borrowers exposure norms as well as the statutory limit on shareholding in companies, as detailed above.

4.8 Margin Trading

4.8.1 Banks may extend finance to stockbrokers for margin trading. The Board of each bank should formulate detailed guidelines for lending for margin trading, subject to the following parameters:

(i) The finance extended for margin trading should be within the overall ceiling of 40% of net worth prescribed for exposure to capital market.

(ii) A minimum margin of 50 per cent should be maintained on the funds lent for margin trading.

(iii) The shares purchased with margin trading should be in dematerialised mode under pledge to the lending bank. The bank should put in place an appropriate system for monitoring and maintaining the margin of 50% on an ongoing basis.

(iv) The bank’s Board should prescribe necessary safeguards to ensure that no "nexus" develops between inter-connected stock broking entities/ stockbrokers and the bank in respect of margin trading. Margin trading should be spread out by the bank among a reasonable number of stockbrokers and stock broking entities.

4.8.2 The Audit Committee of the Board should monitor periodically the bank’s exposure by way of financing for margin trading and ensure that the guidelines formulated by the bank’s Board, subject to the above parameters, are complied with. Banks should disclose the total finance extended for margin trading in the "Notes on Account" to their Balance Sheet.

4.9 Cross holding of capital among banks / financial institutions

4.9.1 (i) Banks' / FIs' investment in the following instruments, which are issued by other banks / FIs and are eligible for capital status for the investee bank / FI, should not exceed 10 percent of the investing bank's capital funds (Tier I plus Tier II):

a. Equity shares;
b. Preference shares eligible for capital status;
c. Subordinated debt instruments;
d. Hybrid debt capital instruments; and
e. Any other instrument approved as in the nature of capital.

(ii) Banks / FIs should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's / FI's holding exceeds 5 percent of the investee bank's equity capital.

(iii) It is clarified that a bank’s/FI’s equity holdings in another bank held under provisions of a Statute will be outside the purview of the ceiling prescribed above.

4.9.2 Banks’ / FIs’ investments in the equity capital of subsidiaries are at present deducted from their Tier I capital for capital adequacy purposes. Investments in the instruments issued by banks / FIs which are listed at paragraph 2.7.1(i) above, which are not deducted from Tier I capital of the investing bank/ FI, will attract 100 percent risk weight for credit risk for capital adequacy purposes.

5 'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.

5.1 ‘Safety Net' Schemes

Reserve Bank had observed that some banks/their subsidiaries were providing buy-back facilities under the name of 'Safety Net' Schemes in respect of certain public issues as part of their merchant banking activities. Under such schemes, large exposures are assumed by way of commitments to buy the relative securities from the original investors at any time during a stipulated period at a price determined at the time of issue, irrespective of the prevailing market price. In some cases, such schemes were offered *suo motto* without any request from the company whose issues are supported under the schemes. Apparently, there was no undertaking in such cases from the issuers to buy the securities. There is also no income commensurate with the risk of loss built into these schemes, as the investor will take recourse to the facilities offered under the schemes only when the market value of the securities falls below the pre-determined price. Banks/their subsidiaries have therefore been advised that they should refrain from offering such 'Safety Net' facilities by whatever name called.

5.2 Provision of buy back facilities

In some cases, the issuers provide buy-back facilities to original investors up to Rs. 40,000/- in respect of non-convertible debentures after a lock-in-period of one year, to provide liquidity to debentures issued by them. If, at the request of the issuers, the banks or their subsidiaries find it necessary to provide additional facilities to small investors subscribing to new issues, such buy-back arrangements should not entail commitments to buy the securities at pre-determined prices. Prices should be determined from time to time, keeping in view the prevailing stock market prices for the securities. Commitments should also be limited to a moderate proportion of the total issue in terms of the amount and should not exceed 25 percent of the owned funds of the banks/their subsidiaries. These commitments will also be subject to the overall exposure limits which have been or may be prescribed from time to time.

ANNEX1

List of All-India Financial Institutions

(Counter party exposure - List of institutions guaranteeing bonds of corporates)

[paragraphs 2.1.3.4(c)]

1. Industrial Finance Corporation of India Ltd.
2. Industrial Investment Bank of India Ltd.
3. Tourism Finance Corporation of India Ltd.
4. Risk Capital and Technology Finance Corporation Ltd.
5. Technology Development and Information Company of India Ltd.
6. Power Finance Corporation Ltd.
7. National Housing Bank
8. Small Industries Development Bank of India
9. Rural Electrification Corporation Ltd.
10. Indian Railways Finance Corporation Ltd.
11. National Bank for Agriculture and Rural Development
12. Export Import Bank of India
13. Infrastructure Development Finance Company Ltd.
14. Housing and Urban Development Corporation Ltd.
15. Indian Renewable Energy Development Agency Ltd.

ANNEX 2
List of All-India Financial Institutions
[Investment in equity/convertible bonds/ convertible debentures by banks -
List of FIs whose instruments are exempted from Capital Market Exposure ceiling]
[paragraph 2.3.4(i)]

1. Industrial Finance Corporation of India Ltd. (IFCI)
2. Tourism Finance Corporation of India Ltd. (TFCI)
3. Risk Capital and Technology Finance Corporation Ltd. (RCTC)
4. Technology Development and Information Company of India Ltd. (TDICI)
5. National Housing Bank (NHB)
6. Small Industries Development Bank of India (SIDBI)
7. National Bank for Agriculture and Rural Development (NABARD)
8. Export Import Bank of India (EXIM Bank)
9. Industrial Investment Bank of India (IIBI)
10. Life Insurance Corporation of India (LIC)
11. General Insurance Corporation of India (GIC)