भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2009-10/422
DBOD.No.BP.BC. 97/ 21.04.141/ 2009-10 **April 23, 2010**

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Classification of investments by banks in Bonds issued by Companies engaged in Infrastructure activities

Please refer to paragraph 66 of the Annual Policy Statement for the year 2010-11 (extract enclosed) wherein it has been proposed to allow banks to classify their investments in non-SLR long term bonds issued by companies engaged in infrastructure activities under HTM category.

2. In terms of paragraph 2.1 (ii), 2.1 (iv) and 2.1 (v) of our Master Circular No.DBOD.BP.BC.3/21.04.141/2009-10 dated July 1, 2009 on 'Prudential norms for classification, valuation and operation of investment portfolio by banks', the norms for classification of investments under 'Held to Maturity' have been prescribed. It has now been decided that any investment by scheduled commercial banks in the long-term bonds issued by companies engaged in executing infrastructure projects and having a minimum residual maturity of seven years may be classified under HTM category. The modified composition of HTM category is given in Annex.

Yours faithfully

(B.Mahapatra)
Chief General Manager

Annex

Paragraphs 2.1 (i). (ii), (iii), (iv) and (v) of Master Circular No.DBOD.BP.BC.3/21.04.141/2009-10 dated July 1, 2009 on 'Prudential norms for classification, valuation and operation of investment portfolio by banks' as modified.

2.1 Held to Maturity

i) The securities acquired by the banks with the intention to hold them up to maturity will be classified under 'Held to Maturity (HTM)'.

ii) Banks are allowed to include investments included under HTM category up to 25 per cent of their total investments.

The following investments are required to be classified under HTM but are not accounted for the purpose of ceiling of 25 per cent specified for this category:

(a) Re-capitalisation bonds received from the Government of India towards their recapitalisation requirement and held in their investment portfolio. This will not include re-capitalisation bonds of other banks acquired for investment purposes.

(b) Investment in subsidiaries and joint ventures (A Joint Venture would be one which the bank, along with its subsidiaries, holds more than 25 percent of the equity).

(c) Investment in the long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities.

iii) Banks are, however, allowed since September 2, 2004 to exceed the limit of 25 percent of total investment under HTM category provided:

(a) the excess comprises only of SLR securities, and

(b) the total SLR securities held in the HTM is not more than 25 percent of their DTL as on the last Friday of the second preceding fortnight.

iv) The non-SLR securities, held as part of HTM as on September 2, 2004 may remain in that category. No fresh non-SLR securities, are permitted to be included in HTM, except the following:

(a) Fresh re-capitalisation bonds, received from the Government of India, towards their re-capitalisation requirement and held in their investment portfolio. This will not include re-capitalisation bonds of other banks acquired for investment purposes.
(b) Fresh investment in the equity of subsidiaries and joint ventures.
(c) RIDF / SIDBI / RHDF deposits.
(d) Investment in long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities.

(v) To sum up, banks may hold the following securities under HTM:

(a) SLR Securities up to 25 percent of their DTL as on the last Friday of the second preceding fortnight.
(b) Non-SLR securities included under HTM as on September 2, 2004.
(c) Fresh re-capitalisation bonds received from the Government of India towards their re-capitalisation requirement and held in Investment portfolio.
(d) Fresh investment in the equity of subsidiaries and joint ventures.
(e) RIDF / SIDBI / RHDF deposits.
(f) Investment in long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities.

<u>Extract of paragraph 66 of the Annual Policy Statement for the year 2010-11</u>

66. At present, banks' investments in non-SLR bonds are classified either under held for trading (HFT) or available for sale (AFS) category and subjected to 'mark to market' requirements. Considering that the long-term bonds issued by companies engaged in infrastructure activities are generally held by banks for a long period and not traded and also with a view to incentivising banks to invest in such bonds, it is proposed:

- to allow banks to classify their investments in non-SLR bonds issued by companies engaged in infrastructure activities and having a minimum residual maturity of seven years under the held to maturity (HTM) category.