

Master Circular on Exposure Norms

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1. General

1.1 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 individual borrowers and group borrowers in India,
- to specific industry or sectors, and
- towards unsecured guarantees and unsecured advances.

1.2 In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of -

- advances against shares, debentures & bonds, and
- investments in shares, debentures & bonds.

2. Credit exposures to individual/group borrowers

2.1 Ceilings

2.1.1 The credit exposure ceiling should be fixed in relation to bank's capital funds and it **should not exceed** 25 percent of capital funds in the case of individual borrowers including public sector undertakings upto March 31, 2000 and 20% from April 1, 2000; such credit should not exceed 50 percent in the case of group borrowers.

2.1.2 With a view to moving closer to the international standard of 15 percent, in phases, the exposure ceiling in respect of individual borrowers, including public sector undertakings, should not exceed **20 percent** of the bank's capital funds effective from **April 1, 2000**. Where the existing level of exposure as on **October 31, 1999** is more than 20 percent, banks should reduce the exposure to 20 percent of capital funds over two year period i.e. by end October 2001. (cf. para (ii) of circular 2 at Appendix B).

2.1.3 Credit exposure to borrowers belonging to a group may exceed the exposure norm of 50 percent of the bank's capital funds by an additional 10 percent (**i.e. upto 60 percent**), provided the additional credit exposure is on account of extension of credit to **infrastructure projects** (i.e. power, telecommunication, roads and ports).

2.1.4 ***Lending under Consortium Arrangements***

The exposure limits will be applicable to lending under consortium arrangements, wherever formalised.

2.2 Exemptions

2.2.1 *Rehabilitation of Sick/Weak Industrial Units*

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

2.2.2 *Food credit*

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

2.3 Definitions

2.3.1 *Capital Funds*

Capital funds for the purpose will comprise paid-up capital and free reserves as per the **published accounts** as on 31st March of the previous year. Reserves, if any, created by way of revaluation of fixed assets etc. may be excluded for the purpose.

2.3.2 In the case of **foreign banks**, the components of capital funds are defined as under:

- (a) Tier I & II capital (excluding revaluation reserves) as on 31 March of the previous year. Average outstanding foreign currency loans granted to Indian companies by the foreign banks and their wholly owned subsidiaries at the end of each month during the previous year ended March.

(cf. para 2 & 3 of circular 9 at Appendix B).

- (b) Average monthly outstanding for the previous year ended 31st March under the lines of credit granted to banks in India under PCFC and other schemes approved by the RBI.
- (c) Average monthly outstandings for the previous year ended 31st March under the foreign currency line of credit granted by the Head Office/other offices of the bank to the Indian branch under PCFC and other schemes approved by the RBI.

2.3.2 *Exposure*

Exposure shall include credit exposure (**funded** and **non-funded** credit limits) and investment exposure (**underwriting** and **similar commitments**) as well as certain types of investments in companies. The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at exposure limit. However, in respect of non-funded credit limits, only 50 percent of such limits or outstandings, **whichever is higher**, need be taken into account for the purpose.

2.3.4 **Credit exposure** comprises of the following elements:

- (a) all types of funded and non-funded credit limits.
- (b) facilities extended by way of equipment leasing, hire purchase finance and factoring services.

(cf. para (iii) of circular 10 at Appendix B).

- (c) advances against shares, debentures, bonds, units of mutual funds, etc. to stock brokers, market makers.
- (d) bank loan for financing promoters contributions.
- (e) bridge loans against equity flows/issues.

Investments

2.3.5 Investments comprise the following elements:

- (a) investments in shares and debentures of companies acquired through direct subscription, devolvement arising out of underwriting obligations or purchase from secondary markets or on conversion of debt into equity, shall be reckoned for arriving at single borrower/group borrower exposure limit.
- (b) investment in PSU bonds through direct subscription, devolvement arising out of underwriting obligations or purchase made in the secondary market, shall be reckoned for arriving at single borrower/group borrower exposure limit.
- (c) investments in Commercial Papers (CPs) issued by Corporate Bodies/PSUs shall be reckoned for arriving at single borrower/group borrower exposure limit.
- (d) investment made by the banks in bonds and debentures of corporates which are guaranteed by a PFI (as per list given in *Annexure 1*) will be treated as an exposure by the bank on the PFI and not on the corporate.

(cf. para 7 of circular 4 at Appendix B).

2.3.6 Loans and advances granted against the security of bank's own term deposits may be excluded from the purview of the exposure ceiling.

Group

2.3.7 The concept of 'Group' and the task of identification of the borrowers belonging to specific industrial groups is left to the perception of the banks/financial institutions. Banks/financial institutions are generally aware of the basic constitution of their clientele for the purpose of regulating their exposure to risk assets. The group to which a particular borrowing unit belongs, may, therefore, be decided by them on the basis of the relevant information available with them, the guiding principle being commonality of management and effective control.

2.3.8 For identifying the group to which a company registered under Section 26(2) of MRTP Act, 1969 belongs, a reference may be made to the Industrial House-wise list of companies registered under the Act. The relative list is given in *Annexure 2*.

2.3.9 In respect of borrowers not covered by the MRTP Act, the group affiliation may be decided by banks on the basis of the principle explained above.

(cf. para 3 of circular 13 at Appendix B).

2.3.10 In the case of a split in the group, if the split is formalised, the splinter groups will be regarded as separate groups. If banks and financial institutions have doubts about the *bona fides* of the split, a reference may be made to RBI for its final view in the matter to preclude the possibility of a split being engineered in order to prevent coverage under the Group Approach.

(cf. para ii of circular 12 at Appendix B).

2.4 Review

- 2.4.1 An annual review of the implementation of exposure management measures may be placed before the Board of Directors before the end of June and a copy each of such review may be furnished for information to the Chief General Manager, Department of Banking Operations and Development, Reserve Bank of India, World Trade Centre, Mumbai and to the concerned Regional Offices of DBOD.

3. Credit exposure to industry or certain sectors

3.1 Internal Exposure Limits

3.1.1 Specific Sectors

Apart from limiting the exposures to individual or Group of borrowers, as indicated above, the banks may also consider fixing internal limits for aggregate commitments to specific sectors e.g. textiles, jute, tea, etc. so that the exposures are evenly spread over various sectors. These limits could be fixed by the banks having regard to the performance of different sectors and the risks perceived. The limits so fixed may be reviewed periodically and revised, as necessary.

3.1.2 Exposure to Real Estate

Banks should frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single/group exposure limits for such loans, margins, security, repayment schedule and availability of supplementary finance and the policy should be approved by the bank's Board.

- 3.1.3 While framing the bank's policy, the guidelines issued by the Reserve Bank should be taken into account. Banks should ensure that the bank credit is used for productive construction activity and not for activity connected with speculation in real estate.

3.2 Exposure to Leasing, Hire Purchase and Factoring Services

- 3.2.1 Banks should maintain a balanced portfolio of equipment leasing, hire purchase and factoring services vis-à-vis the aggregate credit. Their exposure to each of these activities should not exceed 10 percent of total advances.

(cf. para iv of circular 10 at Appendix B).

3.3 Exposure to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad

- 3.3.1 Banks are allowed to extend credit/non-credit facilities (viz. letters of credit and guarantees) to Indian Joint Ventures/Wholly-owned Subsidiaries abroad. Banks are also permitted to provide at their discretion, buyer's credit/acceptance finance to overseas parties for facilitating export of goods & services from India.

- 3.3.2 The above exposure will, however, be subject to a limit of **5 percent** of the unimpaired **Tier I capital**. Higher limits could be considered by the Reserve Bank on merits.

(cf. para 1 of circular 1 at Appendix B).

- 3.3.3 While extending such facilities, banks will have to, *inter alia*, comply with Section 25 of the Banking Regulation Act, 1949, in terms of which the assets in India of every banking company at the close of business on the last Friday of every quarter shall not be less than 75 percent of its demand and time liabilities in India. **In other words, aggregate assets outside India should not exceed 25 percent of the bank's demand and time liabilities in India.**

(cf. para 1(iii) of circular 1 at Appendix B).

- 3.3.4 The banks should also comply with all existing safeguards/prudential guidelines relating to capital adequacy, and exposure norms indicated in paragraph 2.1, *ibid*.

3.4 **Exposure Limits on Advances against Shares and Holding of Shares as Investments***

*[For detailed instructions please see Master Circular dated August 28, 1998 on Bank Finance against Shares and Debentures.]

3.4.1 **Statutory Limit on Shareholding in Companies**

In terms of Section 19(2) of the Banking Regulation Act, 1949, no banking company shall hold shares in any company, whether as **pledgee, mortgagee or absolute owner**, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less, except as provided in sub-section (1) of Section 19 of the Act. Shares held in demat form should also be included for the purpose of determining the exposure limit. **This is an aggregate holding limit for each company.**

- 3.4.2 While granting any advance against shares, underwriting an issue of shares, or acquiring any shares on investment account or even in lieu of debt of any company, these statutory provisions should be strictly observed.

(cf. annexure to circular 5 at Appendix B).

3.4.3 **Regulatory Limits**

There is also a regulatory stipulation that bank's aggregate investment in shares, convertible debentures, bonds, etc. should not exceed 5 percent of their incremental deposits of the previous year. Certain types of loans and advances against shares are also treated as banks' investment in shares for the purpose of observing this ceiling. Therefore, loans and advances against shares for specified purposes are to be clubbed with banks' investments in shares, convertible debentures, bonds, etc. and the ceiling stipulation of 5 percent is to be complied with. The details are given in para 5 below.

3.4.4 **Advances against Shares to Individuals**

Loans at all the offices of a bank, against the security of shares, debentures and PSU bonds to individuals, if held in physical form should not exceed the limit of Rs. 10 lakhs per borrower (individual) with margin of 50%.

3.4.5 If the securities are held in demat form, the loans at all the offices of a bank, should not exceed the limit of Rs. 20 lakhs per borrower (individual) with margin of 25%.

3.4.6 Banks should formulate with the approval of their Boards the Lending Policy for grant of advances to individuals against shares, debentures, bonds keeping in view RBI guidelines. As a prudential measure, the **banks may also consider laying down appropriate limits of such advances.**

(cf. para 3(ii), 3(iii) and 3(iv) of circular 5 at Appendix B).

3.4.7 Advances against units of Mutual funds

Advances against units of mutual funds including units of Unit-64 scheme would attract the quantum and margin requirements as applicable to advances against shares and debentures wherever stipulated.

3.4.8 Bank finance to employees to buy shares of their own companies

Banks may provide finance to employees of companies to buy shares of their own companies. The advance may be granted upto 90 percent of the purchase price of the shares but not exceeding Rs. 50,000/- or six months' salary of the employees, whichever is less.

3.4.9 Advances against Shares to Stock Brokers and Market Makers

Banks should lay down a detailed loan policy for granting advances to Stock Brokers and Market Makers and also a policy for grant of guarantees on behalf of brokers which should keep in view the **maximum exposure** for individual credits within the prescribed prudential single borrower limit as detailed in paragraph 2.1.1 *ibid.* **The Board may also consider laying down a limit on the aggregate exposures of the bank to this sector.**

3.5 Bank Loans for Financing Promoters Contributions

3.5.1 Loans sanctioned to corporates against the security of shares (as far as possible demat shares) for meeting promoter's contribution to the equity of new companies in anticipation of raising resources, should be treated as bank's investments in shares which would thus come under the **ceiling of 5 percent** of the incremental deposits of the previous year prescribed for investments in shares/convertible debentures of PSUs, corporate bodies, and units of mutual fund schemes.

(cf. para (v) of circular 7 at Appendix B).

3.5.2 These loans will also be subject to individual/group of borrowers **exposure norms** detailed in paragraph 2.1.1, *ibid.*

3.5.3 These loans will also be subject to **statutory limit** on shareholding in companies detailed in paragraph 3.4.1 above.

3.5.4 Under the refinance scheme of Export Import Bank of India, the bank may sanction term loans on merits for eligible Indian promoters for acquisition of

equity in overseas joint ventures/ wholly owned subsidiaries, provided the term loans have been approved by the EXIM Bank for refinance.

3.6 Bridge Loans

- 3.6.1 Banks have been permitted to sanction bridge loans to companies for a period not exceeding one year against expected equity flows/issues. Such loans should be included within the ceiling of 5 percent of incremental deposits of the previous year for bank's investments in ordinary shares, convertible debentures of corporates including PSU shares, loans to corporates for meeting promoters contributions and in units of mutual fund schemes the corpus of which is not exclusively invested in corporate debt instruments.
- 3.6.2 Banks should formulate their own internal guidelines with the approval of their Board of Directors for grant of such loans, exercising due caution and attention to security for such loans.
- 3.6.3 Banks may also extend bridge loans against the expected proceeds of Non-Convertible Debentures, External Commercial Borrowings, Global Depository Receipts and/or funds in the nature of Foreign Direct Investments, provided the bank is satisfied that the borrowing company has already made firm arrangements for raising the aforesaid resources/funds.

4. Exposure to unsecured guarantees and unsecured advances

- 4.1.1 Banks have to limit their commitment by way of unsecured guarantees in such a manner that 20 percent of the bank's outstanding unsecured guarantees plus the total of outstanding unsecured advances do not exceed 15 percent of total outstanding advances. Guarantees counter-guaranteed by another bank need not be taken into account for the purpose of the norm.

(cf. para 1 & 2 of circular 15 and para 4(iii) of circular. 18 at Appendix B).

- 4.1.2 For the purpose of conforming to the above norm, guarantees covered by counter-guarantees of the Central Government and the State Governments, public sector financial institutions and insurance companies will be regarded as secured guarantees.

(cf. para 4(iv) of circular 18 at Appendix B).

- 4.1.3 However, deferred payment guarantees should be backed by adequate tangible security or by counter-guarantees of the Central Government or the State Governments or public sector financial institutions, or by counter-guarantees of insurance companies or other banks, provided the counter-guarantees of insurance companies or other banks are themselves backed by adequate tangible security. Where the counter-guarantees by commercial banks are backed by adequate tangible securities, then all guarantees, including deferred payment guarantees, will be treated as secured guarantees.
- 4.1.4 In exceptional cases, the banks may give deferred payment guarantees on an unsecured basis for modest amounts to first class customers who have entered into deferred payment arrangements in consonance with Government policy. But such unsecured guarantees should be accommodated within the maximum ceiling limits.

(cf. instructions in para 4(iv) of circular 18 at Appendix B).

5. Exposure norms for investments

5.1 Banks' Investments in Shares, Debentures and Bonds

5.1.1 Banks are allowed to invest in the -

- ordinary shares of corporate bodies including other banks,
 - shares of public sector undertakings, and
 - convertible debentures of corporate bodies including other banks,
- subject to a **ceiling of 5 percent** of their incremental deposits of the previous year. The banks are required to adhere to the ceiling **on an ongoing basis** and should exercise care to see that the limit is not exceeded.

5.1.2 The investment ceiling includes -

- investments by banks in the subordinated debts of other banks.
- units of Mutual Fund schemes the corpus of which is not exclusively invested in corporate debt.
- bank finance for financing promoters contribution towards equity capital of new companies.
- bridge loans to companies.

5.1.3 The investment ceiling excludes investments in -

- preference shares,
- non-convertible debentures/bonds of private corporate bodies,
- equities/bonds of All-India Financial Institutions (as per list given in Annexure 3),
- bonds issued by Public Sector Undertakings,
- units of Mutual Funds under schemes where corpus is invested exclusively in debt instruments,
- venture capital including units of dedicated venture capital funds meant for Information Technology, and
- investments in Certificate of Deposits (CDs) of other banks/ financial institutions.

5.1.4 Investments in shares and debentures/bonds, included in the 5 percent ceiling on investments or excluded from the ceiling, are to be reckoned for the purpose of arriving at the prudential norm of credit exposure for single borrower and group of borrowers as stipulated in paragraph 2.1.1 above.

5.1.5 The investments will include the acquisition through -

- direct subscription,
 - private placements,
 - secondary markets, or
 - holdings through devolvement of underwriting obligations.
- 5.1.6 Purchase of shares and debentures in the secondary market (other than inter-bank transactions) should be only through recognised stock exchanges and registered stock brokers.

Bank's Investment in the Bonds of a Corporate

5.1.7 For the purpose of calculation of exposure norm, investments made by the banks in bonds and debentures of corporates which are guaranteed by a PFI, as per list given in *Annexure 1*, will be treated as an exposure by the bank on the PFI and not on the corporate.

(cf. para 7 of circular. 4 at Appendix B).

5.1.8 Guarantees issued by the PFI to the bonds of corporates will be treated as an exposure by the PFI to the corporates to the extent of 50 percent being a non-fund facility, whereas the exposure of the bank on the PFI guaranteeing the corporate bond will be 100 percent.

5.1.9 The PFI before guaranteeing the bonds/debentures should, however, take into account the overall exposure of the guaranteed unit to the financial system.

Exposure Limit on Shareholding in Companies

5.1.10 As indicated in paragraph 3.4.1 above, bank's investments in shares inclusive of lendings against shares have also to be subjected to statutory provisions contained in Section 19(2) whereby the **aggregate holding** in a company should not exceed 30 percent of the company's paid-up capital or 30 percent of the bank's paid-up capital and reserves, whichever is less.

Bank's Investment in Venture Capital

5.1.11 In order to encourage the flow of finance for venture capital, the bank's investment in venture capital (including units of dedicated Venture Capital Funds meant for Information Technology) would be over and above the ceiling of 5 percent of incremental deposits of the previous year prescribed for investment in equity shares including PSU shares, convertible debentures of corporates and in units of Mutual Fund schemes, the corpus of which is not exclusively invested in corporate debt instruments. This would, however, be subject to the condition that the venture capital funds/companies are registered with SEBI.

(cf. para 2 (iv) of circular. 1 at Appendix B).

Banks' Investment in Subordinated Debt Instruments

5.1.12 A high level of cross holding of subordinated debt instruments (issued by banks and financial institutions to raise Tier II capital) among banks and financial institutions, does not necessarily lead to accretion of capital to the financial system. As such, a bank's investment in Tier II bonds issued by other banks and

financial institutions shall be permitted upto **10 percent** of the investing bank's total capital. The total capital for this purpose will be same as that reckoned for the purpose of capital adequacy.

(cf. para 2(ii) of circular. 1 at Appendix B).

- 5.1.13 Investments by banks in the subordinated debts of other banks shall also be subject to the ceiling of **5 percent** applicable to investments in shares and debentures of corporate bodies.

5.2 Underwriting of Corporate Shares and Debentures

- 5.2.1 Generally, there are demands on the banks for underwriting the issues of shares and debentures. In order to ensure that there is no over exposure to underwriting commitments to earn fees, the Reserve Bank has laid down the following guidelines which the banks should strictly follow:

- 5.2.2 The statutory provision contained in Section 19(2) & (3) of the Banking Regulation Act, 1949 regarding holding of shares in any company as pledgee/mortgagee or absolute owner, should be strictly adhered to.

- 5.2.3 The banks have to ensure that the shares/debentures including PSU equities and shares of other banks, Mutual Funds (the corpus of which is not exclusively invested in corporate debt instruments), and units of UTI subscribed and/or devolving on them as a part of their underwriting obligations in any particular year do not exceed 5 percent of their incremental deposits of the previous year.

- 5.2.4 It may be noted that the limit placed is on the shares and debentures that may be held in the bank's own portfolio as a result of devolvment and not on the amount of underwriting that the bank may engage in. Normally, the amount of underwriting is a multiple of the amount which devolves finally.

- 5.2.5 The banks are required to adhere to the ceiling of 5 percent of incremental deposits of previous year on an ongoing basis. Banks should exercise care to see that the limit is not exceeded.

(cf. para 2 of circular. 16 at Appendix B).

- 5.2.6 The ceiling of 5 percent does not include investments in preference shares and non-convertible debentures/bonds of private corporate bodies. The ceiling excludes investment in venture capital including units of dedicated venture capital funds meant for Information Technology.

- 5.2.7 The ceiling excludes investments in units of Mutual Funds under schemes where the corpus is invested exclusively in debt instruments.

- 5.2.8 Investments including underwriting devolvments in equities/bonds issued by the All India Financial Institutions, mentioned in *Annexure 1*, would be outside the ceiling of 5 percent prescribed for investments in shares (including PSU equities) and debentures of corporate bodies.

- 5.2.9 The underwriting exposure to any company which will include other funded and non-funded credit limits should not exceed 20 percent of capital funds of the bank in the case of a single company and 50 percent (upto 60 percent, provided the additional credit exposure is on account of extention of credit to infrastructure

project) in the case of group of companies. The non-funded limits may be taken at 50 percent of the limit or outstandings, whichever is higher.

- 5.2.10 While taking up underwriting commitments, banks or their subsidiaries, should ensure that the aggregate of such commitments are included in the exposure limits fixed by the Reserve Bank.

(cf. para 2 (a) of circular. 11 at Appendix B).

- 5.2.11 In the case of underwriting, the commitments under a single obligation should be fixed taking into account the owned funds of banks or their subsidiaries and the capacity to meet the commitments that may devolve and should not in any case exceed 15 percent of an issue.

- 5.2.12 Banks should consider sub-underwriting for every underwritten issue so as to minimise chances of devolution on their own account. This is not mandatory. The need for and extent of such sub-underwriting is a matter of the bank's discretion.

- 5.2.13 As part of merchant banking activities, while taking up underwriting obligations, banks should carefully evaluate the proposals so as to ensure that the issues will have adequate public response and the prospect of devolution of such shares/debentures on the underwriting banks will be minimal.

- 5.2.14 Banks should ensure that the portfolio is diversified and that no unduly large underwriting obligations are taken up in the shares and debentures of a company or a group of companies. Banks should make enquiries regarding the other underwriters and their capacity to fulfil the obligations.

- 5.2.15 Banks should formulate within the above parameters, their own internal guidelines as approved by their Boards of Directors on investments in corporate shares/debentures of companies or group of companies including norms to ensure that excessive investment in any single company is avoided and that due attention is given to the maturity structure and quality of such investments.

5.3 Prohibition on underwriting operations

- 5.3.1 Banks should not underwrite issue of Commercial Paper by any Company, Primary Dealer or Satellite Dealer.

- 5.3.2 Banks should not extend Revolving Underwriting Facility to short-term Floating Rate Notes/Bonds or debentures issued by corporate entities.

- 5.3.3 An annual review covering the underwriting operations taken up during the year, with company-wise details of such operations, the shares/debentures devolved on the banks, the loss (or expected loss) from unloading the devolved shares/debentures indicating the face-value and market value thereof, the commission earned, etc. may be placed before their Boards of Directors within 2 months of the close of the fiscal year.

(cf. para 2 of circular. 16 at Appendix B).

5.4 Underwriting of bonds of Public Sector Undertakings

- 5.4.1 Banks can play a useful role in relation to issue of bonds by public sector undertaking by underwriting a part of these issues.

- 5.4.2 However, it should be kept in view that the major responsibility of the banks is to meet the growing credit needs, especially of working capital of industrial, export and priority sectors. This should not be lost sight of by the banks while undertaking new activities.
- 5.4.3 Banks should subject the proposals for underwriting to proper scrutiny having regard to all the relevant factors and accept such commitments only on well reasoned commercial considerations with the approval of the appropriate authority.
- 5.4.4 With a view to enabling the banks to deploy their surplus funds more remuneratively, the banks will have the freedom to acquire PSU bonds including through underwriting devolvments **without any ceiling**.
- 5.4.5 However, the banks should formulate their own internal guidelines as approved by their Boards of Directors on investments in and underwriting of PSU bonds, including norms to ensure that excessive investment in any single PSU is avoided and that due attention is given to the maturity structure of such investments. Banks would also need to take into account that such investments are subject to risk weight and necessary depreciation has to be fully provided for.
- 5.4.6 Further, such investments in PSU bonds including shares and debentures and subscription to Commercial Papers of PSUs should be reckoned for the purpose of arriving at prudential norms of credit exposure for single borrower and group of borrowers.
- 5.4.7 Banks should undertake an annual review of the underwriting operations relating to bonds of the public sector undertakings, with PSU-wise details of such operations, bonds devolved on the banks, the loss (or expected loss) from unloading the devolved bonds indicating the face-value and market value thereof, the commission earned, etc. and place the same to their Boards of Directors within two months from the close of the fiscal year.

(cf. para 1 of circular 14 at Appendix B).

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

- 5.5.1 Reserve Bank has observed that some banks/their subsidiaries are 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.
- 5.5.2 In some cases, such schemes are being offered *suo motto* without any request from the company whose issues are supported under the schemes. Apparently, there is 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.
- 5.5.3 Banks/their subsidiaries should refrain from offering such 'Safety Net' facilities by whatever name called.

- 5.5.4 In some cases, the issuers provide buy-back facilities to original investors upto 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.
- 5.5.5 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 20 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.

Master Circular
Exposure Norms

List of All-India Financial Institutions

(Counter party exposure and assignment of Risk weight- List of institutions guaranteeing bonds of corporates)

[Vide paragraph 2.3.5 & 5.1.7]

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

Master Circular**Exposure Norms****MRTP Groups Code List***[Vide paragraph 2.3.8]*

Code	Name
001	A.C.C.
002	Apeejay
003	Ashok Leyland
004	Bajaj
005	Bangur
006	Bhiwandiwalla A.H.
008	Birla
010	Brook Bond
011	Ceat Tyres
012	Chowgule
013	Dunlop
014	Escorts
015	G.E.C.
016	G.K.W.
018	Godrej
019	Geonka K.P.
020	Golden Tobacco
021	Hindustan Lever
022	I.C.I.
023	I.T.C.
024	J.K. Singhanian
026	IMFA
028	Kamani
030	Kasturbhai Lalbhai
031	Khatau (Bombay)
033	Kirloskar
034	Kothari
035	Larsen and Toubro
036	Mcneill and Magor

Code	Name
038	Madura Coats
039	Mafatlal
040	Mahindra & Mahindra
042	Modi
043	Murugappa Chettiar
044	Naidu G. V.
046	Nowrosjee Wadia
047	Oberoi M.S.
049	Parry
050	Philips
053	Rallis
054	Raunaq Singh
055	Reliance
056	M.A. Chidambaram
058	Sahu Jain
060	Sarabhai
061	Scindia
064	Ambica
065	Shri Ram
067	Simpson
071	T.V.S. Iyengar
072	Tata
074	Thapar
076	United Breweries
079	V.S. Dempo
080	Walchand
082	Garware
089	Ahmedabad Electricity
097	NRC

Code	Name
098	Orissa Cement
105	Bombay Suburban
106	Ceat Tyres
107	Essar Bulk Carriers
108	Hindustan Development Corpn.
109	Jain Shudh
110	Lohia Machines
111	Nirlon Synthetics
112	Rassi
113	Tata Tea
114	Best & Crompton
115	Bharat Hotels
116	Canned Fruits
117	Cement Pulp
118	Chloride India
119	Dalmia J.
120	Facor
121	Garden Silk
122	Ghatge Patil
123	Ghia
124	R.N. Goenka
125	Graphite India
126	H.L. Malhotra
127	Jaipuria
128	Jardine Henderson
129	Jyoti
130	Kapadia

Code	Name
131	Kelvinator
132	MRF
133	M.K. Mohta
134	Madras Cement
135	Metal Box
136	Modella
137	Navbharat
138	Nilhat Shipping
140	Orkay Silk Mills
141	Patel (NSE)
142	Pratapmal Bhogilal
143	S.P. Jain
144	Salgaocar
145	Shaw Wallace
146	Somani
147	Somaiya
148	Soorajmull Nagarmull
149	Swadeshi Match
150	Swan
151	Thackersey
152	Thiagaraja
153	Titagurh Jute
154	V. Ramakrishna
155	Vardhman
156	XLO
157	Nagarjuna

Master Circular
Exposure Norms

List of All-India Financial Institutions

(Investment in equity/bonds by banks- List of FIs whose instruments are exempted from the 5 % ceiling)

(Vide paragraph 5.1.3)

1. Industrial Credit and Investment Corporation of India Ltd. (ICICI)
2. Industrial Finance Corporation of India Ltd. (IFCI)
3. Industrial Development Bank of India (IDBI)
4. Tourism Finance Corporation of India Ltd. (TFCI)
5. Risk Capital and Technology Finance Corporation Ltd. (RCTC)
6. Technology Development and Information Company of India Ltd. (TDICI)
7. National Housing Bank (NHB)
8. Small Industries Development Bank of India (SIDBI)
9. National Bank for Agriculture and Rural Development (NABARD)
10. Export Import Bank of India (EXIM Bank)
11. Industrial Investment Bank of India (IIBI)
12. Discount and Finance House of India Ltd. (DFHI)
13. Unit Trust of India (UTI)
14. Life Insurance Corporation of India (LIC)
15. General Insurance Corporation of India (GIC)
16. Securities Trading Corporation of India Ltd. (STCI)

Master Circular

EXPOSURE NORMS**A. List of Circulars consolidated by the Master Circular**

No.	Circular No. and Date	Subject
	DBOD.No.BP.1577/21.03.054/2000 dated 24.1.2000	Prudential Credit Exposure Limits
	DBOD.No.Dir.BC.13/13.07.05/99 dated 23.2.1999	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.Dir.BC.2/13.07.05/99 dated 29.1.1999	Bridge Loans
	DBOD.No.Dir.BC.78/13.07.05/98-99 dated 8.8.1998	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.Dir.BC.138/13.07.05/97-98 dated 21.10.1997	Bridge Loans
	DBOD.No.BP.BC.99/21.03.054/97 dated 2.9.1997	Limit on Credit Exposure to Individual/Group Borrowers
	DBOD.No.Dir.BC.60/13.07.05/97 dated 28.5.1997	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.Dir.BC.42/13.07.05/97 dated 15.4.1997	Investments in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.BP.BC.161/21.03.054/ 96 dated 19.12.1996	Limits on Credit Exposure to Individual/Group Borrowers - Advances against Security of Term Deposits
	DBOD.No.Dir.BC.148/13.07.05/96 dated 18.11.1996	Investment in Bonds Issued by Public Sector Undertakings
	DBOD.No.Dir.BC.145/13.07.05/96 dated 25.10.1996	Investment in Shares and Debentures of Corporate Bodies
	DBOD.No.BP.BC.109/21.03.053/ 96 dated 9.8.1996	Certificate of Deposits (CDs) Scheme
	DBOD.No.BP.BC.13/21.01.002/96 dated 8.2.1996	Capital Adequacy Measures
	DBOD.No.FSC.BC.86/24.01.001/ 95-96 dated 17.8.1995	Commitments in respect of Underwriting, etc. Obligations
	DBOD.No.Dir.BC.69/13.07.05/95 dated 28.6.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies

No.	Circular No. and Date	Subject
	DBOD.No.Dir.BC.38/13.07.05/95 dated 4.4.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.IBS.BC.29/23.06.001/95 dated 20.3.1995	Deployment of Foreign Funds in Indian Business
	DBOD.No.28/13.07.05/95 dated 10.3.1995	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.Dir.BC.1/13.07.05-95 dated 6.1.1995	Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies
	DBOD.No.Dir.BC.151/13.07.05/94 dated 28.12.1994	Investment in Equities/Bonds Issued by All-India Financial Institutions
	DBOD.No.BP.BC.133/21.03.054/ 94 dated 11.11.1994	Ceiling on Credit Exposure to Individual/Group Borrowers - Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers
	DBOD.No.524/23.61.001/94-95 dated 25.10.1994	Limits on Credit Exposure to Individual/Group of Borrowers
	DBOD.No.Dir.BC.124/13.07.05/94 dated 22.10.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.BP.BC.97/21.01.023/94 dated 19.8.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.Dir.BC.61/13.07.05/94 dated 18.5.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.IBS.BC.52/23.01.001/ 94 dated 4.5.1994	Indian Investment in Foreign Ventures Financing Equity Participations
	DBOD.No.BP.BC.36/21.03.054/ 94 dated 30.3.1994	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers - Limits on Credit Exposure to Individual/Group Borrowers
	DBOD.No.Dir.BC.4/13.07.05-94 dated 25.1.1994	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers
	DBOD.No.Dir.BC.3/13.07.05-94 dated 24.1.1994	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.BP.BC.211/21.01.001-93 dated 28.12.1993	Restrictions on Credit to Certain Sectors - Real Estate Loans

No.	Circular No. and Date	Subject
	DBOD.No.Dir.BC.176/13.07.05-93 dated 11.10.1993	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers
	IECD.No.IRD.24/IR-A/90-91 dated 23.11.1990	Rehabilitation of Sick/Weak Industrial Units - Exemption of Individual Bank's Exposure from the Application of Existing Ceilings Prescribed Under
	DBOD.No.FSC.BC.27/C.469-89 dated 29.9.1989	'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.
	DBOD.No.FSC.BC.26/C.469-89 dated 29.9.1989	Commitments in respect of Public Issues of Shares, Debentures, etc.
	DBOD.No.BP.BC.132/66-89 dated 26.5.1989	Limits on Credit Exposures to Individual/Group of Borrowers
	DBOD.No.Dir.BC.85/C.347(PSB)-89 dated 1.3.1989	Holdings of Corporate Shares & Debentures and Public Sector Bonds
	DBOD.No.Dir.BC.153/C.347(PSB)-88 dated 18.6.1988	Investments in Holdings of Public Sector Bonds
	DBOD.No.Dir.BC.106/C.96(S&D)-88 dated 17.3.1988	Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies
	DBOD.No.Dir.BC.91/C.347(PSB)-88 dated 6.2.1988	Holdings of Corporate Shares & Debentures and Public Sector Bonds
	DBOD.No.IBS.130/13-88 dated 20.1.1988	Financing of Indian Joint Ventures Abroad
	DBOD.No.Dir.BC.21/C.347(PSB)-87 dated 11.8.1987	Investment in and Underwriting of Shares, Debentures and Public Sector Bonds
	DBOD.No.Dir.BC.61/C.347(PSB)-87 dated 9.6.1987	Investment in and Underwriting of Shares and Debentures of Corporate Bodies
	DBOD.No.Dir.BC.60/C.347(PSB)-87 dated 8.6.1987	Investment in and Underwriting of Shares, Debentures and Public Sector Bonds
	DBOD.No.GC.BC.55/C.408C(P)-87 dated 28.5.1987	Investments in and Underwriting of Bonds Issued by PSUs and Commercial Papers
	DBOD.No.GC.BC.131/C.408C(P)-86 dated 25.11.1986	Investment in and Underwriting of Shares and Debentures of Corporate Bodies

B. List of Other Circulars where Instructions in so far as they relate to Exposure Norms have been dealt with

No.	Circular No. and Date	Subject	Para number
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No.	Circular No. and Date	Subject	Para number
	DBOD.No.BP.BC.35/21.01.002/99 dated 24.4.1999	Monetary and Credit Policy Measures	5.1.11 5.1.12
	DBOD.No.BP.BC.121/21.04.124 / 99 dated 3.11.1999	Monetary and Credit Policy Measures	2.1.1
	DBOD.No.IBS.BC.104/23.37.00 1/98-99 dated 12.11.1998	Extension of Credit/Non-Credit Facilities to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad and Extension of Buyer's Credit and Acceptance	3.3
	DBOD.No.BP.BC.103/21.01.002 / 98 dated 31.10.1998	Monetary and Credit Policy Measures	2.3.5(d) 5.1.7
	DBOD.No.Dir.BC.90/13.07.05/98 dated 28.8.1998	Bank Finance against Shares and Debentures - Master Circular	3.4.1 3.4.3 3.4.4 3.4.5 3.4.6
	DBOD.No.Dir.BC.36/13.03.00/98 dated 29.4.1998	Monetary and Credit Policy Measures	3.4.4 3.4.5
	DBOD.No.Dir.BC.43/13.07.05/97 dated 15.4.1997	Advances against Shares	3.5.1
	IECD.No.13/08.12.01/97-98 dated 27.10.1997	Grant of Bridge Loan Facility by Banks	3.6
	DBOD.No.IBS.BC.54/23.61.001/96 dated 18.4.1996	Limits on Credit Exposures to Individual/Group Borrowers	2.3.2
	DBOD.No.FSC.BC.18/24.01.001 / 93-94 dated 19.2.1994	Equipment Leasing, Hire Purchase, Factoring, etc. Activities	2.3.4(b) 3.2.1
	DBOD.No.Dir.BC.145/13.07.05/93 dated 30.7.1993	Underwriting Activity - Devolvement on Underwriters	5.2
	D.O.IECD.No.2/CMD.GA/Gen/92-93 dated 4.7.1992	Group Approach	2.3.10
	IECD.No.7/CMD.GA/GEN/91-92 dated 29.7.1991	Group Accounts	2.3.7 2.3.8 2.3.9
	DBOD.No.Dir.BC.51/C.96(SD/PSB)-90 dated 26.11.1990	Holdings of Corporate Shares & Debentures and Public Sector Bonds	5.4.7
	DBOD.No.Dir.BC.35/C.96(Z)-90 dated 22.10.1990	Bank Guarantee Scheme	4
	DBOD.No.Dir.BC.103/C.347(PSB)-89 dated 3.4.1989	Investment in and Underwriting of Shares and Debentures of Corporate Bodies	5.3.3
	DBOD.No.Sch.68/C.109-72 dated 31.7.1972	Bank Guarantee Scheme	4

No.	Circular No. and Date	Subject	Para number
	DBOD.No.666/C.96/(Z)-67 dated 3.5.1967	Bank Guarantee Scheme	4