

RBI / 2005-06 / 345

DNBS (PD) CC.No. 65 / 04.18.001 /2005-06

March 31, 2006

To,
Residuary Non-Banking Companies (RNBCs)

Dear Sirs,

Maintenance of directed investments by RNBCs

Please refer to Circular No.: DNBS (PD) CC.No.40/02.01/2003-04 dated 22.6.2004 on the captioned subject.

2. As a measure of security for depositors of Residuary Non-Banking Companies (RNBCs), in terms of the Residuary Non-Banking Companies (Reserve Bank) Directions 1987 (RNBC Directions) contained in the Notification No. DFC. 55/DG(O)-87 dated May 15, 1987, RNBCs are required to invest the amount of deposits accepted by them in the manner prescribed therein.

3. In terms of the directions mentioned above, the RNBCs are presently required to invest the amount of their aggregate liabilities to the depositors (**ALD**) in the following manner.

- i. On and from April 1, 2005, RNBCs are required to invest 80 per cent of their ALD outstanding as at the close of business on the last working day of the second preceding quarter in the manner prescribed by Reserve Bank of India under paragraphs 6(1)(a) and (b) of the RNBC Directions, 1987 and not more than 10 per cent of the ALD or one time the Net Owned Fund (NOF) of the company, whichever is less, as per the decision of the Board of Directors of the company under paragraph 6(1)(c) of the RNBC Directions, 1987.
- ii. On and from April 1, 2006, RNBCs are required to invest 90 per cent of their ALD outstanding as at the close of business on the last working day of the second preceding quarter in the manner prescribed by RBI under paragraphs 6(1)(a) and (b) of the RNBC Directions, 1987 only.

4. On a review, the Bank has decided to modify the pattern of the investments as contained in the RNBC Directions, for which purpose the ALD is bifurcated under two heads namely, ALD as on December 31, 2005 and incremental ALD. Incremental ALD means liabilities to the depositors exceeding the aggregate amount of the liabilities to the depositors as on December 31, 2005.

5. The investment pattern contained in the RNBC Directions have since been modified as under with effect from April 1, 2006:

(a) not less than 10% of the ALD in the manner prescribed under paragraph 6(1)(a) of the RNBC Directions;

(b) not less than 75% of the ALD in the manner prescribed under paragraph 6(1)(b) of the RNBC Directions and

(c) not more than 5% of the ALD as on December 31, 2005 (i.e. incremental ALD) or one time of net owned fund of the company whichever is less in the manner prescribed under paragraph 6(1)(c) of the RNBC Directions for discretionary investments upto 31. March, 2007

There will be no discretionary investment from April 1, 2007.

6. After March 31, 2007 RNBCs shall invest in accordance with paragraph 6(a) and (b) of the RNBC Directions only.

7. An illustrative position as regards the computation of the investment pattern is enclosed as Annex.

8. A copy of the amending Notification No. DNBS.186/ CGM (PK)-2006 dated March 31, 2006 as also the updated Notification No. DFC. 55/DG(O)-87 dated May 15, 1987 issued by the Bank is enclosed.

9. Please acknowledge receipt to the Regional Office under whose jurisdiction the registered office of your company is located.

Yours faithfully,

(P.Krishnamurthy)
Chief General Manager- in-Charge

ILLUSTRATION

	ALD as on				
	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006
ALD	1000	1100	1200	1300	1400
Incremental ALD (Over and above Dec. 31, 2005)	-	100	200	300	400
Discretionary Limit available on entire ALD (5%)	50	55	60	65	-
The Discretionary limit to be reduced in r/o incremental ALD	0	(-)5	(-)10	(-)15	0
Actual Discretionary Limit available (5%)	50	50	50	50	-
Amount to be invested as per Sec.45-IB and Directed Pattern (Compliance Date)	950 (1.4.2006)	1050 (1.7.2006)	1150 (1.10.2006)	1250 (1.1.2007)	1400 (1.4.2007)

**RESERVE BANK OF INDIA
DEPARTMENT OF NON-BANKING SUPERVISION
CENTRAL OFFICE
CENTRE I, WORLD TRADE CENTRE
CUFFE PARADE, COLABA
MUMBAI 400 005**

NOTIFICATION No. DNBS. 186/CGM (PK)-2006 dated March 31, 2006

The Reserve Bank of India, having considered it necessary in the public interest and being satisfied it is necessary to amend the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987, hereby, in exercise of the powers conferred by Sections 45J, 45JA, 45K and 45L of the Reserve Bank of India Act, 1934 (2 of 1934) and all the powers enabling it in this behalf, directs that the said Directions contained in Notification No.DFC.55/DG(O)-87 dated the 15th May 1987 shall, with immediate effect, be amended as follows, namely :-

1. For sub-paragraph (1) of paragraph 6, the following sub-paragraph shall be substituted, namely, -

“6. On and from April 1, 2006,

(1) every residuary non-banking company shall invest and continue to invest an amount including the amount invested in assets under Section 45-IB of the Reserve Bank of India Act, 1934 (2 of 1934), which at the close of business on any day of the quarter ending December 31, 2005 and thereafter, on any day of each quarter shall not be less than the aggregate amounts of the liabilities to the depositors, outstanding at the close of business on the last working day of the second preceding quarter (whether or not such amounts have become payable) in securities or in other types of investments which are unencumbered and valued at a price not exceeding the current market price, in the following manner, namely, -

(a) not less than 10 percent of the aggregate amount of liabilities to depositors in fixed deposits/ certificates of deposit of scheduled commercial banks; or in certificates of deposit of specified financial institutions, provided the certificates are rated not less than AA+ or its equivalent by an approved credit rating agency, or partly in any of these Fixed Deposits/Certificates of Deposit so rated;

(b) not less than 75 percent of the aggregate amount of liabilities to depositors in securities of any State Government or Central Government issued by them in the course of their market borrowing programme, or in bonds or debentures (rated not less than AA+ or equivalent by an approved credit rating agency and listed on a recognized stock exchange) of any other company incorporated under the Companies Act, 1956 (1 of 1956) or in the manner at clause (a) or in the debt oriented schemes of mutual funds subject, however, to the conditions that

(i) not less than 15 per cent of the aggregate amount of the liabilities to the depositors shall be invested in any securities of any State Government or Central Government issued in the course of market borrowing programme;

- (ii) not more than two percent of the aggregate amount of the liabilities to the depositors shall be invested in any one debt oriented Mutual Fund which is governed by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and the aggregate of such investment shall not exceed ten per cent of the aggregate amount of liabilities to the depositors:

Provided that on and from April 1, 2006, a residuary non-banking company which does not comply with the above requirement, shall not make any investment in other securities till the shortfall in this category of investments is made good:

Provided that in the event of downgrading of credit rating below the prescribed grade of any bond or debenture, the bond or debenture shall become ineligible for compliance with the above requirement and shortfall, if any, in the compliance with the above paragraph arising from such downgrading of the rating shall be made good before making any further investments in the securities as provided for in clause (c) or (d). :

Provided that debenture/bonds issued by holding company/subsidiary company/company in the same group shall not qualify for such investment;

- (c) on and from April 1, 2006, not more than 5 percent of the aggregate amount of liabilities to the depositors or one time the net owned fund of the company, whichever is less, may be invested in any manner which in the opinion of the company is safe as per the approval of the board of directors of the company;

- (d) on and from July 1, 2006, the incremental liabilities to the depositors above the level of aggregate amount of the liabilities to the depositors as on December 31, 2005 shall be invested in accordance with sub-paragraph (a) or sub-paragraph (b) only;

- (e) on and from April 1, 2007, the aggregate amount of liabilities to the depositors as at end of last working day of second preceding quarter shall be invested in accordance with sub-paragraph (a) or sub-paragraph (b) only.

Explanation:

For the purpose of clause(d), "incremental liabilities to the depositors" means liabilities to the depositors exceeding the aggregate amount of the liabilities to the depositors as on 31 December, 2005.

(P.Krishnamurty)
Chief General Manager in-Charge