

Draft prudential guidelines on banks' investment in non-SLR debt securities

DBOD.BP.711/21.04.141/2002-03

October 27, 2003

Addressed to the Chairman of all
Scheduled Commercial banks
(excluding RRBs and LABs)

Dear Sir,

**Draft prudential guidelines on banks'
investment in non-SLR debt securities**

In terms of paragraph 68 of the Statement on Mid-Term Review of Monetary and Credit Policy for the year 2001-02, draft operating guidelines on management of non-SLR investment portfolio by banks was issued vide letter DBOD.BP.858/ 21.04.141/ 2001-02 dated October 27, 2001 for obtaining views / comments of banks. The draft guidelines were revised on the basis of feedback received and was forwarded to a select group of banks, FIMMDA and IBA in May 2002 for their comments and views. Paragraph 133 of the Statement on Monetary and Credit Policy for the year 2002-03 also emphasized that banks should observe further prudence in order to contain the risk arising out of non-SLR investment portfolio of banks and FIs, in particular through private placement route.

2. The above guidelines were not issued then since the issue of regulating raising of resources through private placement was being considered by SEBI. SEBI has since advised the guidelines required to be complied with by listed companies making issue of debt securities on a private placement basis and listed on all stock exchange vide circular SEBI/MRD/SE/AT/36/2003/30/9 dated September 30, 2003.

3. In order to contain the risks arising out of non-SLR investment portfolio of banks, in particular through private placement, we enclose in the Annex the draft guidelines proposed to be issued by the Reserve Bank on banks' investment in non-SLR debt securities which, *inter alia*, covering the following:

- i) the need for strengthening the internal rating systems,
- ii) fixing prudential limits,

- iii) review by the Board, and
- iv) disclosures in 'Notes on Accounts' to the balance sheet.

4. A copy of the draft guidelines are also placed on the Reserve Bank website (www.rbi.org.in). You may please furnish your feedback on the above draft guidelines within a week from the date of this letter to enable us to finalise the proposed guidelines.

Yours faithfully,

(B. Mahapatra)
Chief General Manager