

RBI/2004/ 147

BPD. PCB. Cir. 45 / 16.20.00/ 2003-04

April 15, 2004

The Chief Executive Officers of all
Primary (Urban) Co-operative Banks (UCBs)

Dear Sir/Madam,

Investment in non-SLR debt securities by Primary (Urban) Co-operative Banks(UCBs).

Please refer to the draft prudential guidelines on investment in non-SLR debt securities by UCBs, issued vide our Circular UBD.No. BPD.PCB. Cir. 25 /16.20.00/2003-04 dated November 17, 2003.

2. We have examined the suggestions/comments received from various quarters and have since finalized guidelines as furnished in the Annexure. Please note that the guidelines come into force with immediate effect and the banks will have to fully comply with the same.

3. You are advised to place the contents of the circular together with its enclosures before the Board of your bank.

4. Please acknowledge receipt to the concerned Regional Office.

Yours faithfully,

Sd/-

(S. Karuppasamy)
Chief General Manager In-charge

Encl : 6 sheets.

**Guidelines on investments by Primary (Urban) Co-operative
Banks in Non-SLR Debt Securities**

Coverage

1. These guidelines cover investments by urban co-operative banks in the bonds issued by public sector undertakings, unsecured redeemable bonds floated by nationalised banks, bonds / shares issued by All India Financial Institutions and units of Unit Trust of India. The guidelines will apply to investments both in the primary market as well as in the secondary market. It may be noted that banks should not invest in Non-SLR debt securities of original maturity of less than one-year.
2. It is further clarified that these guidelines apply to Capital gains bonds, Bonds eligible for priority sector status and Bonds issued by Central or State Public Sector undertaking, with or without government guarantees.
3. Definitions of a few terms used in these guidelines have been furnished in Appendix I with a view to ensure uniformity in approach while implementing the guidelines.

Regulatory requirements

4. Banks should undertake usual due diligence in respect of investments in non-SLR securities. Present RBI regulations preclude banks from extending credit facilities for certain purposes. Banks should ensure that such activities are not financed by way of funds raised through the non-SLR securities.
5. Banks must not invest in unrated debt securities except bonds of nationalised banks, unlisted securities, unlisted shares of All India Financial Institutions and privately placed debt securities.
6. The debt securities shall carry a credit rating of not less than investment grade from a Credit Rating Agency registered with the SEBI. Banks should ensure that they make all fresh Non-SLR debt investments only in listed debt securities of public sector undertakings which comply with the requirements of the SEBI circular dated September 30, 2003.

Internal assessments

7. Since non-SLR securities are mostly in the form of credit substitutes, banks are advised to (i) subject all their investment proposals relating to the above securities to credit appraisal on par with their credit proposals, irrespective of the fact that the proposed investments may be in rated securities, (ii) make their own internal credit analysis and rating even in respect of rated issues and that they should not entirely rely on the ratings of external agencies, and (iii) strengthen their internal rating systems which should also include building up of a system of regular (quarterly or

half-yearly) tracking of the financial position of the issuer with a view to ensuring continuous monitoring of the rating migration of the issuers/issues.

Fixing of prudential limits

8(i) The Board of Directors of banks should fix a prudential limit for their total investment in non-SLR securities and sub-limits for the following debt securities:

- (a) bonds of public sector undertakings,
- (b) bonds /equity of All India Financial Institutions listed in Appendix - II,
- (c) infrastructure bonds floated by All India Financial Institutions,
- (d) unsecured redeemable bonds floated by nationalised banks,
- (e) units of UTI and
- (f) certificate of deposits issued by scheduled commercial banks and other financial institutions approved by RBI.

(ii) The total investment in (a) to (f) above should not exceed 10 per cent of the banks' total deposits as on March 31 of the previous year, with a sub-ceiling of 5 per cent of incremental deposits of the previous year for investments covered under (e).

(iii) Further the Banks should ensure that exposure, to a single issuer of debt securities is within the individual exposure ceiling prescribed by RBI for grant of advances, based on capital funds of the bank.

9. Banks which have exposure to investments in non-SLR securities in excess of the prudential limit prescribed above as on 31st March 2003 should not make any fresh investment in such securities till they ensure compliance with the above prudential limit.

10. As a matter of prudence, banks should stipulate entry-level minimum ratings/ quality standards and industry-wise, maturity-wise, duration-wise, issuer-wise etc. limits to mitigate the adverse impacts of concentration and the risk of illiquidity.

Role of Boards

11. Banks should ensure that their investment policies duly approved by the Board of Directors are formulated after taking into account all the relevant issues specified in these guidelines on non-SLR investment. Banks should put in place proper risk management systems for capturing and analysing the risk in respect of non-SLR investment and taking remedial measures in time.

12. The Board should devise a system to ensure that the limits prescribed in paragraph 8 above are scrupulously complied. The Boards should appropriately address the issue of ensuring compliance with the prudential limits on an ongoing basis, including breaches, if any, due to rating migration.

13. Boards of banks should review the following aspects of non-SLR investment twice a year:

- a) Total business (investment and divestment) during the reporting period
- b) Compliance with the prudential limits prescribed by the Board for non-SLR investment
- c) Rating migration of the issuers/ issues held in the bank's books and consequent diminution in the portfolio quality
- d) Extent of non-performing investments in the non-SLR category and sufficient provision thereof.

Demat form

14. Urban co-operative banks should make investments in non-SLR securities in dematerialised form only.

Trading and settlement in debt securities

15. As per the SEBI guidelines, all trades with the exception of the spot transactions, in a listed debt security, shall be executed only on the trading platform of a Stock Exchange. In addition to complying with the SEBI guidelines, banks should ensure that all spot transactions in listed securities are reported on the NDS and settled through the CCIL from a date to be notified by RBI.

Disclosures

16. As per our circular No. BP. PCB. 20/16.45.00/2002-03 dated October 30, 2002, banks having deposits of Rs. 100 crore or more are required to disclose certain information as 'Notes in Accounts' to their balance sheet effective from the year ending March 31, 2003. In addition to the existing disclosure norms for investments, they (i.e. the banks having deposits of Rs. 100 crore and more) are further advised to disclose the details of issuer composition of non-SLR investments and the non-performing non-SLR investments in the 'Notes on Accounts' of the balance sheet, as indicated in Appendix III.

**Guidelines on non -SLR investment by urban
co-operative banks - Definitions**
(Vide para 3 of the Guidelines)

1. With a view to imparting clarity and to ensure that there is no divergence in the implementation of the guidelines, some of the terms used in the guidelines are defined below.
2. A security will be treated as rated if it is subjected to a detailed rating exercise by an external rating agency in India which is registered with SEBI and is carrying a current or valid rating. The rating relied upon will be deemed to be current or valid if:
 - i) the credit rating letter relied upon is not more than one month old on the date of opening of the issue, and
 - ii) the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and
 - iii) the rating letter and the rating rationale is a part of the offer document.
 - iv) In the case of secondary market acquisition, the credit rating of the issue should be in force and confirmed from the monthly bulletin published by the respective rating agency.

Securities which do not have a current or valid rating by an external rating agency would be deemed as unrated securities.

3. The investment grade ratings awarded by each of the external rating agencies operating in India would be identified by the IBA/ FIMMDA. These would also be reviewed by IBA/ FIMMDA at least once a year.
4. A 'listed' debt security is a security which is listed in a stock exchange. If not so, it is an 'unlisted' debt security.
5. A non performing investment (NPI), similar to a non performing advance (NPA), is one where
 - i) Interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 180 days. The delinquency period has become 90 days with effect from 31st March 2004.
 - ii) any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as NPI.

List of All India Financial Institutions

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

**Prudential guidelines on management of the non-SLR
investment portfolio by urban co-operative banks –
Disclosures requirements**

(vide para 16 of the Guidelines)

Urban co-operative banks should make the following disclosures in the 'Notes on Accounts' of the balance sheet in respect of their non-SLR investment portfolio, with effect from the financial year ending 31 March 2004.

i) Issuer composition of Non SLR investments

(Rs. in crore)

No.	Issuer	Amount	Extent of 'below investment grade' Securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
(1)	(2)	(3)	(4)	(5)	(6)
1	PSUs				
2	FIs				
3	Nationalised Banks				
4	Others				
5	Provision held towards depreciation		X X X	X X X	X X X
	Total *				

- NOTE:** 1.* Total under column 3 should tally with the total of investments in Schedule 8 to the balance sheet:
2. Amounts reported under columns 4, 5, and 6 above may not be mutually exclusive.

ii) Non performing Non-SLR investments

Particulars	Amount (Rs. Crore)
Opening balance	
Additions during the year since 1 st April	
Reductions during the above period	
Closing balance	
Total provisions held	
