



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2004-05/21
DBOD. BP. BC. No. 3/21.01.002/2004-05

6 July 2004

The Chief Executives of all Scheduled Commercial Banks and FIs (excluding RRBs)

Dear Sir,

Prudential Norms on Capital Adequacy –Cross holding of capital among banks/ financial institutions

Please refer to our circular DBOD.No.BP.BC.20/ 21.01.002/ 2003-04 dated September 2, 2003 in terms of which a bank's aggregate investment in Tier II bonds issued by other banks and financial institutions is permitted up to 10 per cent of the investing bank's capital funds (Tier I plus Tier II capital). The matter has since been reviewed and it has been decided that –

- (i) The above ceiling of 10 per cent would henceforth be applicable to banks' / FIs' investments in all types of instruments listed at (ii) below, which are issued by other banks / FIs and are eligible for capital status for the investee bank / FI.
(ii) Banks' / FIs' investment in the following instruments will be included in the prudential limit of 10 per cent referred to at (i) above.
a) Equity shares;
b) Preference shares eligible for capital status;
c) Subordinated debt instruments;
d) Hybrid debt capital instruments; and
e) Any other instrument approved as in the nature of capital.
(iii) Banks / FIs should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's / FI's holding exceeds 5 per cent of the investee bank's equity capital.

2. Banks' / FIs' investments in the equity capital of subsidiaries are at present deducted from their Tier I capital for capital adequacy purposes. Investments in the instruments issued by banks / FIs which are listed at paragraph 1(ii) above, which are not deducted from Tier I capital of the investing bank/ FI, will attract 100 per cent risk weight for credit risk for capital adequacy purposes.

3. Banks/ FIs which currently exceed the limits specified at (i) and (iii) of paragraph 1 above, may apply to the Reserve Bank within 45 days from the date of this circular along with a definite roadmap for reduction of the exposure within prudential limits.

Yours faithfully,

(C.R. Muralidharan)
Chief General Manager-in-Charge

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