



RBI/2009-10/421

DBOD No. BP.BC. 96 / 08.12.014/ 2009-10

April 23, 2010

All Scheduled Commercial Banks  
(excluding RRBs)

Dear Sir,

**Prudential norms on Advances to Infrastructure Sector**

Please refer to paragraphs 96 and 97 of the Annual Policy Statement for the year 2010-11 (extract enclosed) wherein it has been proposed (i) to treat annuities and toll collection rights as tangible securities, and (ii) to reduce the provisioning required on unsecured infrastructure loan accounts classified as sub-standard to 15 per cent.

2. In terms of paragraph 2(a) of our circular [DBOD.No.BP.BC.125/21.04.048/2008-09](#) dated April 17, 2009 on 'Prudential Norms on Unsecured Advances', rights, licenses, authorizations, etc. charged to banks as collateral in respect of projects (including infrastructure projects) should not be reckoned as tangible security. In partial modification to the above it has been decided that banks may treat annuities under build-operate-transfer (BOT) model in respect of road/highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

3. In terms of paragraph 6 of our circular [No.DBOD.BP.BC.97/ 21.04.141/ 2003-04](#) dated June 17, 2004 on 'Prudential Guidelines on Unsecured Exposures' it is stipulated that unsecured exposures identified as sub-standard would attract additional provision of 10 per cent, i.e., a total of 20 per cent on the outstanding balance. In view of certain safeguards such as escrow accounts available in respect of infrastructure lending, it has been decided that infrastructure loan accounts which are classified as sub-standard will attract a provisioning of 15 per cent instead of the current prescription of 20 per cent. To avail of this benefit of lower provisioning, the banks should have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on these cash flows.

Yours faithfully

(B. Mahapatra)  
Chief General Manager

**Extract of paragraphs 96 and 97 of the Annual Policy Statement for the year 2010-11**

96. In terms of extant instructions, rights, licenses and authorisations of borrowers, charged to banks as collateral in respect of project loans (including infrastructure projects) are not eligible for being reckoned as tangible security for the purpose of classifying an advance as secured loan. As toll collection rights and annuities in the case of road/highway projects confer certain material benefits to lenders, it is proposed:

- to treat annuities under build-operate-transfer (BOT) model in respect of road/highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

97. Till June 2004, the Reserve Bank had prescribed a limit on banks' unsecured exposures. As a step towards deregulation, the above limit was withdrawn to enable banks' Boards to formulate their own policies on unsecured exposures. The provisioning requirement for unsecured sub-standard exposures, however, was increased to 20 per cent consequent to the withdrawal of limits on banks' unsecured exposures (the provisioning requirement for secured sub-standard exposures stands at 10 per cent). In view of certain safeguards such as escrow accounts available in respect of infrastructure lending, it is proposed that:

- infrastructure loan accounts classified as sub-standard will attract a provisioning of 15 per cent instead of the current prescription of 20 per cent. To avail of this benefit of lower provisioning, banks should have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on such cash flows.