भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2014-15/618
DBR.BP.BC.No.98/08.12.014/2014-15 **June 01, 2015**

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Issue of Long Term Bonds by banks for Financing of Infrastructure and Affordable Housing – Cross Holding

Please refer to our circular DBOD.BP.BC.No.25/08.12.014/2014-15 dated July 15, 2014 allowing banks to issue long term bonds, with exemptions from certain regulatory pre-emptions, for their financing of infrastructure and affordable housing loans. Further, in order to provide liquidity to retail investors in such bonds, we also allowed banks; vide circular DBOD.BP.BC.No.50/08.12.014/2014-15 dated November 27, 2014, to extend loans to individuals against such long-term bonds issued by them.

2. In terms of paragraph 13 of circular dated July 15, 2014, presently banks are not permitted to cross-hold such bonds among themselves. It has been represented to us that such prohibition on cross-holding inhibits the liquidity and tradability of these bonds, as banks are the major participants in the debt market.

3. On a review, it has been decided that henceforth, banks can invest in the long term bonds issued by other banks under the provisions of the above-mentioned circular dated July 15, 2014. However, the primary objective of allowing regulatory exemptions on CRR and SLR requirements as well as priority sector lending is to encourage issue of long term bonds for lending to infrastructure projects and affordable housing. To preserve this objective and in order to prevent double counting of regulatory exemptions allowed, such investments will be subject to conditions as follows:

i. Banks' investment in such bonds will not be treated as 'assets with the banking system in India' for the purpose of calculation of NDTL.
ii. Such investments are not to be held under HTM category.
iii. An investing bank's investment in a specific issue of such bonds will be capped at 2% of the investing bank's Tier 1 Capital or 5% of the issue size, whichever is lower.
iv. An investing bank's aggregate holding in such bonds will be capped at 10% of its total Non-SLR investments.
v. Not more than 20% of the primary issue size of such bond issuance can be allotted to banks.
vi. Banks cannot hold their own bonds.

6. All other terms and conditions as mentioned in circulars DBOD.BP.BC.No.25/08.12.014/2014-15 dated July 15, 2014 and DBOD.BP.BC.No.50/08.12.014/2014-15 dated November 27, 2014 will remain unchanged. Further, RBI's relevant extant prudential norms will be applicable on such issuances and investments.

Yours faithfully,

(Sudarshan Sen)
Chief General Manager-in-Charge