प्रेस प्रकाशनी PRESS RELEASE

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September 23, 2011

Broad parameters for banks and NBFCs to set up Infrastructure Debt Funds (IDFs)

The Reserve Bank has announced today that banks and Non Banking Financial Companies (NBFCs) would be eligible to sponsor Infrastructure Debt Funds (IDFs), to be set up as Mutual Funds (MFs) and NBFCs. The Securities and Exchange Board of India (SEBI) has amended the (Mutual Funds) Regulations to provide regulatory framework for IDF-MFs by inserting Chapter VI – B to the MF Regulations.

The broad parameters for setting up of IDFs under MF and NBFC structures by banks and NBFCs are given below:

I. Parameters for setting up of IDFs as MFs by banks and NBFCs

Banks and NBFCs would be eligible to sponsor (as defined by SEBI Regulations for Mutual Funds) IDFs as Mutual Funds with prior approval of RBI subject to the following conditions in addition to those prescribed by SEBI:

Banks as sponsors

- Banks acting as sponsors to IDF-MFs would be subject to existing prudential limits including limits on investments in financial services companies and limits on capital market exposure.

NBFCs as sponsors

A NBFC sponsoring IDF-Mutual Fund will have to fulfill the following eligibility criteria:

- It should have a minimum Net Owned Funds (NOF) of Rs. 300 crore and CRAR of 15%;
- Its net NPAs should be less than 3% of net advances;
- It should have been in existence for at least 5 years and should be earning profits for the last three years and its performance should be satisfactory;
- The CRAR of the NBFC post investment in the IDF-MF should not be less than that prescribed; and
- The NBFC should continue to maintain the required level of NOF after accounting for investment in the proposed IDF.

II. Parameters for setting up IDF – NBFC by banks and NBFCs

Sponsors of NBFC- IDFs will have to contribute a minimum equity of 30% and a maximum equity of 49% of the IDF-NBFC. Banks and NBFC-Infrastructure Finance Company (NBFC-IFCs) may sponsor IDFs as NBFCs with prior approval by RBI subject to the following conditions:

Banks as sponsors

- Banks acting as sponsors to IDF-NBFCs would be subject to existing prudential limits including limits on investments in financial services companies and limits on capital market exposure.

NBFC-IFC as sponsor

- Post investment in the IDF, the sponsor must maintain minimum CRAR and NOF prescribed for IFCs.

Criteria for IDF-NBFC

i) The IDF must have NOF of Rs. 300 crore or above;

ii) The IDF should be assigned a minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA or equivalent rating by any other accredited rating agencies;

iii) Tier II capital cannot exceed Tier I. Minimum CRAR should be 15% of risk weighted assets;

iv) The IDF shall invest only in PPP and post COD infrastructure projects which have completed at least one year of satisfactory commercial operation and are a party to a Tripartite Agreement with the concessionaire and the Project Authority for ensuring a compulsory buyout with termination payment;

v) For the purpose of computing capital adequacy of the IDF, bonds covering PPP and post COD projects in existence over a year of commercial operation shall be assigned a risk weight of 50%;

vi) The exposure norms for IDF –NBFC will be linked to its total capital funds (Tier I and Tier II).

The maximum exposure that an IDF can take to a borrower or a group of borrowers will be at 50% of its total capital funds. Additional exposure up to 10% would be allowed at the discretion of the Board of the IDF-NBFC. Boards of IDFs will be required to frame appropriate policies governing risk, exposure etc. Limited additional exposure over 60% could be taken with RBI’s prior approval.

Detailed guidelines for setting up IDFs banks and NBFCs would be issued separately.

Background

It may be recalled that the Union Finance Minister in his budget speech for 2011-12 had announced setting up of IDFs in order to accelerate and enhance the flow of long term debt in infrastructure projects for funding the Government’s ambitious programme of infrastructure development.

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Press Release : 2011-2012/461