RBI/2011-12/269

DBOD.FSD.BC.No. 57 /24.01.006/2011-12 November 21, 2011

The Chairmen and
Managing Directors /
Chief Executive Officers of
All Scheduled Commercial Banks
(Excluding RRBs)

Dear Sir,

Banks as sponsors to Infrastructure Debt Funds (IDFs)

In order to accelerate and enhance the flow of long term funds to infrastructure projects for undertaking the Government's ambitious programme of infrastructure development, Union Finance Minister in his budget speech for 2011-12 had announced setting up of Infrastructure Debt Funds (IDFs). Accordingly, the Government has since come out with the broad structure of the proposed IDFs vide their press release dated June 24, 2011. IDFs can be set up either as Mutual Funds (MFs) or as Non-Banking Finance Companies (NBFCs). While IDF-MFs will be regulated by SEBI (SEBI has amended the Mutual Funds Regulations to provide regulatory framework for IDF-MFs by inserting Chapter VI-B to the MF Regulations), IDF-NBFCs will be regulated by Reserve Bank of India (RBI). The Reserve Bank had also issued a press release on September 23, 2011 which contained the broad parameters for banks and NBFCs to set up IDFs. The detailed regulations relating to IDF-NBFCs are contained in our circular No. DNBS.PD.CC.No.249 /03.02.089/2011-12 dated November 21, 2011.

2. In this connection, we advise that scheduled commercial banks would be allowed to act as sponsors to IDF-MFs and IDF-NBFCs with prior approval from RBI subject to the following conditions:

2.1 Sponsor to IDF – MF

Department of Banking Operations and Development, Central Office, 12th Floor, Central Office Building, Shahid Bhagat Singh Marg,, Mumbai,400001

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Banks may act as sponsors to IDF–MFs subject to adherence to SEBI regulations in this regard.

2.2 Sponsor to IDF – NBFC

A bank acting as sponsor of IDF–NBFC shall contribute a minimum equity of 30 per cent and maximum equity of 49 per cent of the IDF-NBFC. Since in terms of Section 19 (2) of the Banking Regulation Act, 1949, a bank cannot hold shares in excess of 30 per cent of the paid up share capital of a company, unless it is a subsidiary, Reserve Bank would, based on merits, recommend to the Government to grant exemption from the provisions of Section 19(2) of the Act, (i.e. under Section 53 of the Act ibid) for investment in excess of 30 per cent and upto 49 per cent in the equity of the IDF-NBFC.

2.3 General conditions for banks to act as sponsors to IDFs – both under MF and NBFC structures

(i) Investment by a bank in the equity of a single IDF – MF and NBFC should not exceed 10 per cent of the bank's paid up share capital and reserves.

(ii) Investment in the equity of a bank in subsidiary companies, financial services companies, financial institutions, stock and other exchanges put together should not exceed 20 per cent of bank's paid up share capital and reserves and this limit will also cover bank's investments in IDFs as sponsors.

(iii) Banks' exposures to IDFs - (MFs and NBFCs) by way of contribution to paid up capital as sponsors will form part of their capital market exposure and should be within the regulatory limits specified in this regard.

(iv) Banks should have clear Board laid down policies and limits for their overall infrastructure exposure which should include their exposures as sponsors to IDFs - (MFs and NBFCs).

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(v) The IDFs - (MFs and NBFCs) should make a disclosure in the prospectus / offer document at the time of inviting investments that the sponsoring bank's liability is limited to the extent of its contribution to the paid up capital.

3. Banks which are desirous of sponsoring IDFs (MFs / NBFCs) may apply to the Chief General Manager-in-Charge, Department of Banking Operations & Development, Reserve Bank of India, Central Office, 12th Floor, Shahid Bhagat Singh Marg, Mumbai – 400 001.

Yours faithfully,

(Murli Radhakrishnan)
Chief General Manager