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TOPICS

» Premature Buyback of Foreign Currency Convertible Bonds (FCCBs)

The global economic outlook has deteriorated sharply over the last two months. In response to the evolving global and domestic developments, the Reserve Bank of India (RBI) has taken a number of measures since mid-September 2008. In our Banking Newsflash dated November 17, 2008, we had summarized the steps taken by RBI to augment the domestic and forex liquidity and to enable banks to continue to lend for productive purposes while maintaining the credit quality so as to sustain the growth momentum. The measures were to ensure that the Indian financial markets continue to function in an orderly manner. However, given the way the global economic outlook has further deteriorated in recent times, a need to provide further measures was felt, and in response the RBI vide its Press Release dated December 6, 2008 has reviewed the evolving macroeconomic and monetary/liquidity conditions and has notified further measures which are summarized as under:

- Reduction of Repo rate: It has been decided to reduce the repo rate under the liquidity adjustment facility (LAF) by 100 basis points from 7.5 per cent to 6.5 per cent and the reverse repo rate by 100 basis points from 6.0 per cent to 5.0 per cent, effective December 8, 2008.
- Refinancing to the SIDBI: In view of the need to enhance credit delivery to the employment- intensive micro and small enterprises (MSE) sector, it has been decided to provide refinance of an amount of Rs. 7,000 crore to the Small Industries Development Bank of India (SIDBI) under the provisions of Section 17(4H) of the Reserve Bank of India Act, 1934.
- Refinancing for NHB under consideration: The RBI is considering a similar refinance facility for the National Housing Bank (NHB) as provided to SIDBI of an amount of Rs. 4000 crore. It is yet to be finalized.
- Buy-back/Pre-payment of Foreign Currency Convertible Bonds (FCCBs): Measures for premature buyback of foreign currency convertible bonds (FCCBs) were announced in the RBI Press Release issued on November 15, 2008. The RBI has reviewed these measures and has decided to permit Authorized Dealers Category - I banks to consider applications for premature buyback of FCCBs from their customers, where the source of funds for the buyback is:
    - foreign currency resources held in India (including funds held in Exchange Earners

Foreign Currency [EEFC] accounts) or abroad and/or

- fresh external commercial borrowings (ECB) raised in conformity with the current ECB norms, provided there is a minimum discount of 15 per cent on the book value of the FCCB.

In addition, RBI will consider applications for buyback of FCCBs out of rupee resources provided that:

- there is a minimum discount of 25 per cent on the book value;
- the amount of the buyback is limited to US $ 50 million of the redemption value per company; and
- the resources for buyback are drawn out of internal accruals of the company as certified by the statutory auditor.

- <u>Housing Finance Companies:</u> It has been decided that loans granted by banks to Housing Finance Companies (HFCs) for on-lending to individuals for purchase/construction of dwelling units may be classified under priority sector, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. However, the eligibility under this measure will be restricted to five per cent of the individual bank's total priority sector lending. This special dispensation will apply to loans granted by banks to HFCs up to March 31, 2010.
- <u>Exceptional/Concessional treatment:</u> Under the current guidelines, exposures to commercial real estate, capital market exposures and personal/ consumer loans are not eligible for the exceptional regulatory treatment of retaining the asset classification of the restructured standard accounts in standard category. It has been decided to extend exceptional/concessional treatment to the commercial real estate exposures which are restructured up to June 30, 2009. Further, to address the problem of viable units facing temporary cash flow problems, it has been decided, as a one time measure, that the second restructuring done by banks of exposures (other than exposures to commercial real estate, capital market exposures and personal/consumer loans) up to June 30, 2009, will also be eligible for exceptional regulatory treatment.
- <u>Measures to help exporters:</u> In view of the difficulties faced by exporters on account of the weakening of external demand, it was decided that the interest rate on Post-shipment Rupee Export Credit up to 180 days will not exceed BPLR minus 2.5 percentage points. In respect of overdue bills, banks have been permitted to charge the rates fixed for Export Credit Not Otherwise Specified (ECNOS) for the period beyond the due date. It has now been decided that the prescribed interest rate as applicable to post shipment rupee export credit (not exceeding BPLR minus 2.5 percentage points) may also be extended to overdue bills up to 180 days from the date of advance.

Operational instructions covering the above measures will be issued separately by the RBI.

In case of any clarifications please contact our Knowledge Management Team.

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