**ADVANCE BUSINESS & FINANCIAL MANAGEMENT**

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| **Sr. No.** | **Important Notifications** |
| 1 | Investments in Alternative Investment Funds (AIFs) |
| 2 | Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs) |

**Investments in Alternative Investment Funds (AIFs)**

RBI/2023-24/140
DOR.STR.REC.85/21.04.048/2023-24

March 27, 2024

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
All Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks
All All-India Financial Institutions
All Non-Banking Financial Companies (including Housing Finance Companies)

**Investments in Alternative Investment Funds (AIFs)**

Please refer to the [circular DOR.STR.REC.58/21.04.048/2023-24 dated December 19, 2023](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12572&Mode=0) (‘Circular’) on the captioned subject, in terms of which instructions were issued to address certain regulatory concerns relating to investment by regulated entities (REs) in the AIFs.

2. With a view to ensuring uniformity in implementation among the REs, and to address the concerns flagged in various representations received from stakeholders, it is advised as under:

(i) Downstream investments referred to in paragraph 2 (i) of the Circular shall exclude investments in equity shares of the debtor company of the RE, but shall include all other investments, including investment in hybrid instruments.

(ii) Provisioning in terms of paragraph 2(iii) of the Circular shall be required only to the extent of investment by the RE in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RE in the AIF scheme.

(iii) Paragraph 3 of the Circular shall only be applicable in cases where the AIF does not have any downstream investment in a debtor company of the RE. If the RE has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company, then the RE shall be required to comply with paragraph 2 of the Circular.

(iv) Further with regard to paragraph 3 of the Circular:

* proposed deduction from capital shall take place equally from both Tier-1 and Tier-2 capital.
* reference to investment in subordinated units of AIF Scheme includes all forms of subordinated exposures, including investment in the nature of sponsor units.

(v) Investments by REs in AIFs through intermediaries such as fund of funds or mutual funds are not included in the scope of the Circular.

3. The above instructions have been issued in exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949 read with Section 56 of the Act ibid; Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12639&Mode=0>

**Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs)**

RBI/2024-25/33
DOR.CRE.REC.22/21.03.054/2024-25

May 03, 2024

All Scheduled Commercial Banks
(excluding RRBs)

Madam/Dear Sir,

**Banks' Exposure to Capital Market -
Issue of Irrevocable Payment Commitments (IPCs)**

Please refer to [circular DBOD.Dir.BC.68/13.03.00/2011-12 dated December 27, 2011](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=6903&Mode=0) on “Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs)” and mailbox clarification dated September 11, 2012 on “Applicability of Irrevocable Payment Commitments”.

2. The risk mitigation measures prescribed in the aforesaid circular were based on T+2 rolling settlement for equities (T being the Trade day). The Stock Exchanges have since introduced T+1 rolling settlement, and accordingly the extant guidelines on issuance of IPCs by banks have been reviewed. Henceforth, all IPCs issued by custodian banks under the T+1 settlement cycle shall comply with the following instructions:

1. Only those custodian banks will be permitted to issue IPCs, who have a clause in the Agreement with clients giving the banks an inalienable right over the securities to be received as pay out in any settlement. However, this clause will not be insisted upon if the transactions are pre-funded i.e., either clear INR funds are available in the customer’s account or, in case of FX deals, the bank’s nostro account has been credited before the issuance of the IPC.
2. The maximum intraday risk to the custodian banks issuing IPCs would be reckoned as Capital Market Exposure (CME) at 30 percent of the settlement amount. This is based on the assumption of 20 percent downward price movement of the equities on T+1, with an additional margin of 10 percent for further downward movement of price.
3. In case margin is paid in cash, the exposure will stand reduced by the amount of margin paid. In case margin is paid by way of permitted securities to Mutual Funds / Foreign Portfolio Investors, the exposure will stand reduced by the amount of margin after adjusting for haircut as prescribed by the Exchange on the permitted securities accepted as margin.
4. Under T+1 settlement cycle, the exposure shall normally be for intraday. However, in case any exposure remains outstanding at the end of T+1 Indian Standard Time, capital will have to be maintained on the outstanding capital market exposure in terms of the [Master Circular – Basel III Capital Regulations dated April 1, 2024](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=12652), as amended from time to time.
5. The underlying exposures of banks to their counterparties, emanating from the intraday CME, will be subject to limits prescribed under [Large Exposure Framework dated June 3, 2019](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11573&Mode=0), as amended from time to time.

3. The instructions contained in [circular DBOD.Dir.BC.68/13.03.00/2011-12 dated December 27, 2011](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=6903&Mode=0) on ‘Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs)’ shall continue to remain valid for T+2 settlement cycle.

4. These instructions shall come into force with immediate effect.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12681&Mode=0>