REC PRUDENTIAL NORMS

(As on 10th June, 2014)

The Significant Accounting Policies of the Corporation included as a Schedule to the Balance Sheet and Profit & Loss A/c, give, in short, the important Prudential Norms followed by the Corporation. However, a need has been felt to specifically describe the Prudential Norms followed by REC. Accordingly, Prudential Norms have been drafted and are described hereunder. These Prudential Norms are generally based on the Prudential Norms prescribed by RBI for NBFCs vide Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998 as amended from time to time, and the same language has been retained unless changed.

1. These REC Prudential Norms shall come into force with effect from April 01, 2007, except the norms for 'Concentration of credit/investment' which shall be applicable with immediate effect.

2. Definitions

(1) For the purpose of these norms, unless the context otherwise requires:-

(i) "break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;

(ii) "carrying cost" means book value of the assets and interest accrued thereon but not received;

(iii) "current investment" means an investment which is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made;

(iv) "Doubtful asset" means –

(a) a term loan, or
(b) a lease asset, or
(c) a hire purchase asset, or
(d) any other asset,

which remains a sub-standard asset for a period exceeding 18 months;

(v) "earning value" means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate

(a) in case of predominantly manufacturing company, eight per cent;
(b) in case of predominantly trading company, ten per cent; and
(c) in case of any other company, including an NBFC, twelve per cent;

NOTE : If, an investee company is a loss making company, the earning value will be taken at zero;

(vi) "fair value" means the mean of the earning value and the break up value;

(vii) "hybrid debt" means capital instrument which possesses certain characteristics of equity as well as of debt;

(viia) 'infrastructure loan' means a credit facility extended by REC to a borrower, by way of term loan, project loan subscription to bonds/debentures/ preference shares / equity shares in a project company acquired as a part of the project finance package such that such subscription amount to be "in the nature of advance" or any other form of long term funded facility provided to a borrower company engaged in:

- Developing or
- Operating and maintaining, or
- Developing, operating and maintaining any infrastructure facility that is a project in

a) generation or generation and distribution of power;
b) transmission or distribution of power by laying a network of new transmission or distribution lines;
c) any other infrastructure facility of similar nature.

(viib) "Joint Sector borrower" shall be an entity in respect of which equity share capital of atleast 26% has been held or committed to be subscribed by Central /State Government/Central Government PSU/State Government PSU either singly or jointly alongwith private sector participation.

(viii) "loss asset" means -

a) An asset which has been identified as loss asset by REC to the extent it is not written off by REC, or the asset remains doubtful for a period exceeding 5 years, whichever is earlier;

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non availability of security or due to any fraudulent act or omission on the part of the borrower;

(ix)"long term investment" means an investment other than a current investment;

(x) “net asset value” means the latest declared net asset value by the concerned mutual fund in respect of that particular scheme;

(xi) “net book value” means

(a) in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 8(2)(i) of these norms;

(b) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

(xii) Non-performing asset (referred to in these norms as “NPA”) means:

(a) an asset in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head `other current assets’ in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

(xiii) “owned fund” means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

(xiv)
(a) "standard asset" means

an asset which is not an NPA as per details given in clause 2(1)(xii) and in respect of which no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business or a deemed standard asset which is defined below;

and

'a deemed standard asset' means

a facility made to a state utility against state government undertaking for deduction from central plan allocation for making payment to REC against its unpaid dues.

(xv) "sub-standard asset" means –

(a) an asset which has been classified as non-performing asset for a period not exceeding 18 months;

(b) an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms:

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of paragraph 13B of these directions;

(xvi) "subordinated debt" means a fully paid up capital instrument, which is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the competent authority of REC. The book value of such instrument shall be subjected to discounting as provided hereunder:

Remaining Maturity of the instruments	Rate of discount (%)
(a) Upto 1 yr.	100%
(b) More than 1 yr. but upto 2 yrs.	80%
(c) More than 2yrs but upto 3yrs	60%
(d) More than 3 yrs but upto 4yrs	40%
(e) More than 4 yrs but upto 5 yrs	20%

to the extent such discounted value does not exceed fifty per cent of Tier I capital;

(xvii) "substantial interest" means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten per cent of the paid up capital of the company; or the capital subscribed by all the partners of a partnership firm;

(xviii) "Tier-I Capital" means owned fund as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund;

(xix) "Tier-II capital" includes the following :-

(a) preference shares other than those which are compulsorily convertible into equity;

(b) revaluation reserves at discounted rate of fifty five percent;

(c) general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;

(d) hybrid debt capital instruments; and

(e) subordinated debt

to the extent the aggregate does not exceed Tier-I capital.

(2) Other words or expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 (2 of 1934) or the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 or the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987 shall have the same meaning as assigned to them from time to time under that Act or those Directions. Any other words or expressions not defined in that Act or those Directions, shall have the same meaning assigned to them in the Companies Act, 1956 (1 of 1956).

3. Income recognition

(1) Income recognition is based on recognised accounting principles. The financial accounts are prepared under the Companies Act, 1956 on going concern basis at historical cost under the accrual method in accordance with Accounting Standards as notified under Section 211(3C) of the Companies Act, 1956.

Income on Non Performing Assets where interest / principal has become overdue for two quarters or more, is recognised as and when received and appropriated.

Unless otherwise agreed, the recoveries from the borrowers are appropriated in the order of (i) costs and expenses of REC (ii) penal interest including interest tax, if any (iii) overdue interest including interest tax, if any and (iv) repayment of principal, the oldest being adjusted first.

In respect of standard loans including those whose terms are renegotiated/ rescheduled/ restructured and retained as Standard Loans, income is recognised on accrual basis.

In respect of loans (Non-performing assets), income is recognized on accrual basis when it is reasonably expected that there is no uncertainty of receipt of dues from the borrowers and there has been satisfactory performance under the renegotiated or rescheduled or restructured terms until the expiry of satisfactory performance under the renegotiated or rescheduled ore restructured terms.

(2) Income including interest/discount or any other charges on NPA is recognised only when it is actually realised. Any such income recognised before the asset becomes non-performing and remaining unrealised is reversed.

(3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised, shall be reversed.

(4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset becomes non-performing and remaining unrealised shall be reversed.

Explanation : For the purpose of this paragraph, `net lease rentals' mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV of the Companies Act, 1956 (1 of 1956).

4. Income from investments

(1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on accrual basis when REC's right to receive payment is established.

2) Income from bonds and debentures of corporate bodies and from Government securities/bonds shall be taken into account on accrual basis:

Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

(3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government shall be taken into account on accrual basis.

5. Accounting standards

Accounting Standards as notified under Section 211 (3C) of the Companies Act, 1956 and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI) are followed.

6. Accounting of investments

(1) (a) The company follows the investment policy framed by the Board of Directors ;

(b) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;

(c) Investments in securities shall be classified into current and long term, at the time of making each investment;

(d) (i)There shall be no inter-class transfer on ad-hoc basis;

(ii) The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board of Directors;

(iii) The investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;

(iv) The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;

(v) The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.

(2) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.,

(a) equity shares,
(b) preference shares,
(c) debentures and bonds,
(d) Government securities including treasury bills,
(e) units of mutual fund, and
(f) others.

Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

(3) Unquoted equity shares in the nature of current investments shall be valued at cost or break up value, whichever is lower. However, REC may substitute fair value for the break up value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.

(4) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.

5) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

(6) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

(7) Commercial papers shall be valued at carrying cost.

(8) A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.

Note : Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

7. Asset Classification

(1) REC shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes namely, -

(i) Standard assets;
(ii) Sub-standard assets;
(iii) Doubtful assets; and
iv) Loss assets.

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

(3) For the purposes of classification of assets into Standard, sub-standard, doubtful and loss categories, facilities shall be classified borrower wise with the following exception:

Government Sector loans, where cash flows from each project are separately identifiable and applied to the same project, REC shall classify such loans on project wise basis.

8. Provisioning requirements

REC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

1. <u>Loans, advances and other credit facilities including bills purchased and discounted</u>

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under :

(i) Loss Assets - The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstandings shall be provided for;

(ii) Doubtful Assets –

(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which REC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis; Loans covered by Central/State Govt. guarantee or loans to any State Govt. shall be treated as secured;
(b) In addition to item(a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. Estimated realizable value of the outstandings) shall be made on the following basis : -

Period for which the asset has been considered as doubtful	% of provision
Upto one year	20 %
1 to 3 years	30 %
More than 3 years	50 %

iii) Sub-standard assets - A provision of 10% shall be made.

iv) Standard assets – Provision in respect of Standard Assets is made @ 0.25% of the outstanding Standard assets.

1(A) The provisions in respect of Non Performing Assets (NPAs) is reversed only after the complete recovery of the outstanding/ regularization of the account.

2. <u>Lease and hire purchase assets</u>

The provisioning requirements in respect of hire purchase and leased assets shall be as under:-

Hire purchase assets

(i) In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by

(a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and
(b) the depreciated value of the underlying asset , shall be provided for.

Explanation : For the purpose of this paragraph,

(1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and

(2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

<u>Additional provision for hire purchase and leased assets</u>

(ii) In respect of hire purchase and leased assets, additional provision shall be made as under :

(a) Where any amounts of hire charges or lease rentals are overdue upto 12 months - Nil

Sub-standard assets :

(b) where any amounts of hire charges or lease rentals are overdue for more than 12 months but upto 24 months - 10 percent of the net book value

Doubtful assets :

(c) where any amounts of hire charges or lease rentals are overdue for more than 24 months but upto 36 months - 40 percent of the net book value

(d) where any amounts of hire charges or lease rentals are overdue for more than 36 months but upto 48 months - 70 percent of the net book value

Loss assets :

(e) where any amounts of hire charges or lease rentals are overdue for more than 48 months - 100 percent of the net book value

(iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

NOTES :

(1) The amount of caution money/margin money or security deposits kept by the borrower with REC in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement may be deducted only against the provisions stipulated under clause (ii) above.

(2) The amount of security deposits kept by the borrower with REC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may be deducted only against the provisions stipulated under clause (ii) above.

(3) It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the

leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised cannot be taken as reason for not making provision.

(4) An asset which has been renegotiated or rescheduled or restructured as referred to in paragraph (2) (xv) (b) of these directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement or restructuring**,** as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

(5) All financial leases attract the provisioning requirements as applicable to hire purchase assets.

9. Disclosure in the balance sheet

(1) REC shall separately disclose in its balance sheet the provisions made as per paragraph 8 above without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of accounts as under:

(i) provision for bad and doubtful debts; and

(ii) provision for depreciation in investments.

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by REC.

(4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

9A Constitution of Audit Committee

REC has constituted an Audit Committee, consisting of not less than three members of its Board of Directors.

Explanation I: The Audit Committee constituted by REC as required under Section 292-A of the Companies Act, 1956 (1 of 1956) shall be the Audit Committee for the purposes of this paragraph.

Explanation II: The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 292-A of the Companies Act, 1956 (1 of 1956).

9B Accounting year

REC shall prepare its balance sheet and profit and loss account as on March 31 every year.

9BB Schedule to the balance sheet

REC shall append to its balance sheet prescribed under the Companies Act, 1956, the particulars in the format as set out in the schedule prescribed by RBI.

9C Transactions in Government securities

(1) REC

(i) shall hold its investments in approved securities in a Constituent's Subsidiary General Ledger (CSGL) account opened with a scheduled commercial bank or the Stock Holding Corporation of India Ltd. or in a dematerialised account opened with a depository through a depository participant registered with the Securities and Exchange Board of India; and

(ii) shall transact in these securities only through its CSGL account or its dematerialised account.

(2) REC shall not undertake transactions in these securities in physical form with any broker.

10. Requirement as to capital adequacy

REC shall maintain a minimum capital adequacy ratio of Tier I and Tier II capital to its risk weighted assets and of risk adjusted value of off-balance sheet items as prescribed by RBI from time to time for NBFCs. Capital adequacy ratio shall be calculated as per the method prescribed by RBI from time to time.

The total of Tier II capital, at any point of time, shall not exceed one hundred percent of Tier I capital. Capital Adequacy ratio shall be maintained at a percentage prescribed by RBI from time to time, **(which is presently 15% for IFCs).**

In calculating the Capital to Risk Weighted Asset Ratio (CRAR), the State Government guaranteed loans of REC which have not remained in default shall be assigned a risk weight of 20%, as allowed by RBI, vide their letter no. DNBS.CO.ZMD-N/42/14.18.014/2009-2010 dated 29th June 2010.

11. Restrictions on investments in land and building and Unquoted shares

(i) In case REC is accepting public deposit, it shall not invest in -

(a) land or building, except for its own use, an amount exceeding ten percent of its owned funds ;

(b)unquoted shares of another company, which is not a subsidiary company or a company in the same group of REC, an amount exceeding twenty percent of its owned fund :

Provided that the land or building or unquoted shares acquired in satisfaction of its debts shall be disposed off by REC within a period of three years, from the date of such acquisition if the investment in these assets together with such assets already held by REC exceeds the above ceiling;

Explanation : While calculating the ceiling on investment in unquoted shares, investments in such shares of all companies shall be aggregated.

Provided further that the above ceiling on the investment in unquoted shares shall not be applicable in respect of investment in the equity capital of an insurance company upto the extent specifically permitted by the Board.

12. Concentration of credit/investment

A. Applicable in respect of loans to borrowers <u>other than</u> State Power Utilities / State Governments / Central or State Government Undertakings:

(1) REC shall not,

(i) lend to

(a) any single borrower exceeding twenty five per cent of its owned funds; and

(b) any single group of borrowers exceeding forty per cent of its owned funds.

(ii) invest in

(a) the shares of another company exceeding fifteen per cent of its owned funds; and

(b) the shares of a single group of companies exceeding twenty five per cent of its owned funds;

(iii) lend and invest (loans/ investments taken together) exceeding

(a) thirty per cent of its owned funds to a single party; and

(b) fifty per cent of its owned funds to a single group of parties.

Provided further that the above ceilings on credit/investment concentration shall not be applicable in respect of investments in approved securities, bonds, debentures and other securities issued by a Government company or a public financial institution or a scheduled commercial bank or a State Govt.

Provided further that the above ceiling on the investment in shares of another company shall not be applicable in respect of investment in the equity capital of an insurance company upto the extent specifically permitted, in writing, by the Board of Directors.

B. Applicable in respect of loans to State Power Utilities / State Governments / Central or State Government Undertakings:

In respect of loans to State Power Utilities/ State Governments/ Central or State Government Undertakings, separate exposure limits are prescribed based on Entity Appraisal within the following overall limits:-

1. 100% of REC's net worth for State Power Utility (other than Integrated SEBs and DISCOMs of states where not more than one DISCOM has been formed) / State Government/ Central Government PSUs in Power Sector.

2. 200% of REC's net worth for DISCOM (in states where a single DISCOM has been formed to look after distribution work).

3. 250 % of REC's net worth for Integrated SEBs.

4. 50 % of REC's net worth for central / state sector / Joint sector borrower, other than categories at 1 to 3 above.

Notes:

(1) (a) The exposure limit beyond 100% upto 200% of REC's net worth in a State where a single DISCOM exists (which is not unbundled yet), and upto 250% of REC's net worth for integrated SEBs shall be allowed only where REC has rated / classified the concerned State / Utility as "A" or "A+"category.

(b) Out of exposure limit allowed up to 250% of REC's net worth for integrated SEBs, exposure for Generation Projects would generally be limited to 100% of REC's net worth.

(c) In case of T&D Projects, for exposure beyond the limit of 100% of REC's net worth.

(i) where the existing AT&C losses are more than 30%, the borrowing entity shall undertake to bring down losses by a minimum of 2% per annum for that Entity till it reaches the level of 30%; and

(ii) where the existing AT&C losses are less than 30% but more than 20%, the borrowing entity shall undertake to bring down the losses by a minimum of 1% per annum for that Entity till it reaches the level of 20%; and

(iii) The base date for AT&C losses referred to in (a) and (b) above would be 31st March of the financial year in which the project is sanctioned.

(2) For determining the above exposure limits, off-balance sheet exposures be converted into credit risk by applying the conversion factors as provided in RBI Guidelines.

(3) The investments in debentures for the above purpose be treated as credit and not investment.

(4) The above ceilings on credit/investments shall be applicable to the own group of REC as well as to the other group of borrowers/ investee companies.

(5) For this purpose, the credit exposure will be reckoned as outstanding credits under all schemes (including guarantee assistance) plus the undisbursed commitments for loans executed. The net worth of REC shall be taken as per latest audited/provisional (quarterly/half yearly) accounts.

(6) In all cases where the Corporation considers taking significant exposure either in the form of credit or investment, the Corporation shall impose the condition of nomination of its Director(s) on the Board of the borrowing entity and shall make such nomination either from within the Corporation or otherwise, as may be decided by the CMD.

13. Submission of returns to RBI

REC shall submit such returns to the Department of Non-Banking Supervision of the Reserve Bank of India under whose jurisdiction the registered office of the company is located, as are required to be so submitted under RBI directions.

13A Information in regard to change of address, directors, auditors, etc. to be submitted when not accepting/holding public deposit

REC shall, not later than one month from the occurrence of any change in the following matters, intimate :

(a) the complete postal address, telephone number/s and fax number/s of the registered/corporate office;

(b) the names and residential addresses of the directors of the company;

(c) the names and the official designations of its principal officers; and

(d) the names and office address of the auditors of the company;

and furnish the specimen signatures of the officers authorised to sign on behalf of the company to the Regional Office of the Department of Non-Banking Supervision of the

Reserve Bank of India as indicated in the Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

13B. Norms relating to Infrastructure loan:

(1) Applicability:

(i) These norms shall be applicable to restructuring and/or rescheduling and/or renegotiation of the terms of agreement relating to infrastructure loan, as defined in paragraph 2(1)(viia) of these norms which is fully or partly secured standard and sub-standard asset and to the loan, which is subjected to restructuring and/or rescheduling and/or renegotiation of terms

(ii) Where the asset is partly secured, a provision to the extent of shortfall in the security available, shall be made while restructuring and/or rescheduling and/or renegotiation of the loans, apart from the provision required on present value basis, but subject to prudential norms.

(2) Restructuring, reschedulement or renegotiation of terms of infrastructure loan

REC may restructure or reschedule or renegotiate the terms of infrastructure loan agreement as per the policy framework laid down by the Board of Directors of the company after the asset has been classified as sub-standard:

Provided that the restructuring and/or rescheduling and/or renegotiation of principal and / or of interest may take place, with or without sacrifice, as part of the restructuring or rescheduling or renegotiating package evolved;

(3) Treatment of restructured standard loan

The rescheduling or restructuring or renegotiation of a standard asset shall not cause it to be reclassified if the revised project is found to be viable by the competent authority.

(4) Treatment of restructured sub-standard asset :

A sub-standard asset shall continue to remain in the same category in case of restructuring or rescheduling or renegotiation of the instalments of principal until the expiry of one year and the amount of interest foregone, if any, on account of adjustment, including adjustment by way of write off of the past interest dues, in the element of interest as specified later, shall not be recognized.

(5) Adjustment of interest :

Where rescheduling or renegotiation or restructuring involves a reduction in the rate of interest, the interest adjustment shall be computed by taking the difference between the rate of interest as currently applicable to infrastructure loan (as adjusted for the risk rating applicable to the borrower) and the reduced rate and aggregating the present value (discounted at the rate currently applicable to infrastructure loan, adjusted for risk enhancement) of the future interest payable so stipulated in the restructuring rescheduling or renegotiation proposal.

(6) Funded Interest :

In the case of funding of interest in respect of NPAs, where the interest funded is recognized as income, the interest funded shall be fully provided for.

(7) Income Recognition norms:

The income recognition in respect of infrastructure loan shall be governed by the provisions of paragraph 3 of these directions;

(8) Eligibility for upgradation of restructured sub-standard infrastructure loan :

The sub-standard asset subjected to rescheduling and/or renegotiation and/or restructuring, whether in respect of instalments of principal amount, or interest amount, by whatever modality, shall not be upgraded to the standard category until expiry of one year of satisfactory performance under the restructuring and/or rescheduling and/or renegotiation terms.

(9) Conversion of debt into equity :

Where the amount due as interest, is converted into equity or any other instrument, and income is recognized in consequence, full provision shall be made for the amount of income so recognized to offset the effect of such income recognition:

Provided that no provision is required to be made, if the conversion of interest is into equity which is quoted;

Provided further that in such cases, interest income may be recognized at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity.

(10) Conversion of debt into debentures :

Where principal amount and/or interest amount in respect of NPAs is converted into debentures, such debentures shall be treated as NPA, ab initio, in the same asset classification as was applicable to the loan just before conversion and provision shall be made as per norms.

(11) Risk weight for investment in AAA rated securitized paper:

The investment in “AAA” rated securitized paper pertaining to the infrastructure facility shall attract risk weight of 50 per cent for capital adequacy purposes subject to the fulfilment of the following conditions:

(i) The infrastructure facility generates income / cash flows, which ensures servicing / repayment of the securitized paper.

(ii) The rating by one of the approved credit rating agencies is current and valid.

Explanation: The rating relied upon shall be deemed to be current and valid, if the rating is not more than one month old on the date of opening of the issue, and the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and the rating letter and the rating rationale form part of the offer document.

(iii) In the case of secondary market acquisition, the ‘AAA’ rating of the issue is in force and confirmed from the monthly bulletin published by the respective rating agency;

(iv) The securitized paper is a performing asset.]

14. Exemptions

The Board of Directors may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extension of time to comply with or exempt from all or any of the provisions of these directions either generally or for any specified period, subject to such conditions as it may impose.

15. Interpretations

For the purpose of giving effect to the provisions of these norms, CMD may issue necessary clarifications in respect of any matter covered herein.