Report

on

India Infrastructure Debt Fund

June 1, 2010

REPORT ON

INDIA INFRASTRUCTURE DEBT FUND

New Delhi, June 1, 2010

1. Background

1.1 Creation of world-class infrastructure has been recognised as a key priority and a necessary condition for sustaining the growth momentum of the economy. Since infrastructure projects have a long pay-back period, they require long-term financing in order to be sustainable and cost effective. However, debt financing for infrastructure projects has been largely confined to banks who have difficulty in providing long term debt due to their asset-liability mismatch.

1.2 A concept paper on creation of a Debt fund for Infrastructure PPP projects was presented by Shri Gajendra Haldea, Adviser to Deputy Chairman in a meeting of experts and stakeholders, held on May 12, 2010 under the chairmanship of Deputy Chairman Planning Commission. The paper suggested the creation of the India Infrastructure Debt Fund that would raise low-cost long-term resources for re-financing infrastructure projects that are past the construction stage and associated risks.

2. Formation of Committee

2.1 It was decided in the aforesaid meeting to form a committee under the chairmanship of Shri Deepak Parekh, Chairman, HDFC to deliberate on the proposed India Infrastructure Debt Fund. The composition of the committee is as follows:

i.	Shri Deepak Parekh, Chairman, HDFC	Chairman
ii.	Shri S.S. Khurana, Chairman, Railway Board	Member
iii.	Shri Brahm Dutt, Secretary, Ministry of Road Transport & Highways	Member
iv.	Shri P Uma Shanker, Secretary, Ministry of Power	Member
v.	Shri K. Mohandas, Secretary, Ministry of shipping	Member

vi.	Shri Kaushik Basu, Chief Economic Advisor, Ministry of Finance	Member
vii.	Ms Ravneet Kaur, JS, Department of Financial services & CMD, IIFCL	Member
viii.	Ms. Kalpana Morparia, CEO, JP Morgan India	Member
ix.	Shri U.K. Sinha, CMD, UTI AMC	Member
x.	Shri. T.S. Vijayan ,Chairman, LIC	Member
xi.	Shri Milind Kalkar, Deputy General Manager, State Bank of India	Member
xii.	Shri Mohit Batra, Senior General Manager, ICICI	Member
xiii.	Mr. Michael Markels, Lead Financial Sector Specialist, world Bank	Member
xiv.	Shri Alok Kshirsagaar, Director, Mckinsey & Company	Member
xv.	Shri Gajendra Haldea, Adviser to Deputy Chairman, Planning Commission	Member - convenor

2.2 The Committee met on May 18, 2010, May 24, 2010 and June 1, 2010 to deliberate on the issues relating to the proposed Fund. After considering the suggestions received from various members, the Concept Paper was suitably revised. A copy of the revised Concept Paper is attached.

The Committee commends the attached Concept Paper for the consideration and approval of the Central Government.

India Infrastructure Debt Fund: A Concept Paper

Creation of world-class infrastructure has been recognised as a key priority and a necessary condition for sustaining the growth momentum of the economy. Investment in infrastructure during the Eleventh Five Year Plan (2007-12) is expected to be Rs. 20,000 bn as compared to Rs. 9,000 bn during the Tenth Plan while the share of private investment would rise from Rs. 2,250 bn (25%) in the Tenth Plan to Rs. 7,400 bn (36%) in the Eleventh Plan. A large proportion of this private investment is expected from PPP projects based on long-term concessions.

Since infrastructure projects have a long pay-back period, they require long-term financing in order to be sustainable and cost-effective. However, debt financing for infrastructure projects has been largely confined to banks who have difficulty in providing long-term debt due to their asset-liability mismatch. On the other hand, insurance and pension funds have stayed away on account of their risk perceptions.

This Concept Paper suggests the creation of a Debt Fund that would raise low-cost long-term resources for re-financing infrastructure projects that are past the construction stage and associated risks. Through a package of credit enhancement measures, it is proposed to channelise these debt funds to infrastructure projects that are backed by a 'buy-out' guarantee from the government. This would enable the project sponsors to refinance their debt while sharing the gains with the government/ users. It would also release a significant proportion of the scarce lending space of the banks, thus enabling them to lend to the robust pipeline of forthcoming projects.

This is a proposal for setting up an India Infrastructure Debt Fund (the "Fund") for Rs. 50,000 crore ($ 11 billion) to meet the needs of long-term debt for infrastructure projects that are set up through Public Private Partnerships (PPP). The Fund will also help bridge the emerging gap in the total debt required for funding infrastructure projects which presently rely on commercial banks. The provision of low-cost long-term debt is necessary for reducing the cost of infrastructure projects and this Fund would be a significant step in that direction. The Fund would only lend to projects that have entered into commercial operation after completion of construction. This would imply taking over of the existing debt of commercial banks and thus releasing their lending space for provision of loans to new projects. When the Fund is fully operational, it will also help create a secondary market for debt bonds.

1. Context

Infrastructure has been recognised as a key priority in the Eleventh Five Year Plan (2007-12), both with a view to addressing the deficit of the past years and for keeping pace with the needs of a rapidly growing economy. The Eleventh Five Year Plan has set a target (revised) for scaling up investment in infrastructure from about 5% of GDP, as prevailing in the Tenth Plan, to 8.4% by the terminal year of the Eleventh Plan (2011-12). In absolute terms, this implies an investment of about Rs. 20,54,000 crore (US $ 513.55 billion) during the Eleventh Plan as compared to Rs. 9,06,074 crore ($ 227 billion) during the Tenth Plan. For achieving this sharp increase in investment, the role of the private sector would have to be enhanced besides an increase in public sector outlays. It is envisaged that 36% of the total investment during the Eleventh Plan would need to be mobilised from the private sector as against 25% achieved during the Tenth Plan, which implies an increase from Rs. 2,25,200 crore ($ 56 billion) in the Tenth Plan to about Rs. 7,43,000 crore ($ 185 billion) during the Eleventh Plan.

2. The debt gap

The aforesaid private investment of Rs. 7,43,000 crore ($ 185 billion) would require an equity contribution of about Rs. 222,900 crore ($ 56 billion) and debt of about Rs. 520,000 crore ($ 130 billion). In addition, the debt required for public sector projects has been projected at Rs. 506,000 crore ($ 126 billion) during the period of Eleventh Plan. Thus, the total debt requirement for infrastructure would be Rs. 102,6000 crore ($ 257 billion). Projections for debt resources that are likely to be available for infrastructure suggest that there would be a gap of Rs. 201,300 crore ($ 50 billion) during the Eleventh Plan period. However, this gap has not surfaced during the past three years mainly because of the slow roll-out of projects on account of several reasons including the global financial crisis. This situation is likely to change as some recent initiatives of the government, coupled with a simplified and standardised policy and contractual framework, are likely to lead to an accelerated roll-out of projects to be undertaken by private entities through Public Private Partnership (PPP). The targets for the Eleventh Plan may also be met *albeit* with a delay of about two years.

3. Lack of long-term debt

The problem of inadequate debt resources is compounded by the lack of long term debt for financing infrastructure projects, which are financed mainly by the commercial banks. Insurance and pension funds do not lend to project companies setting up greenfield infrastructure projects and the bond market has not matured sufficiently for addressing the needs of such projects. Commercial banks typically lend for the medium term as their asset-liability mismatch prevents them from undertaking long-term commitments. In the absence of long-term debt, the cost of projects increases significantly on account of the short pay-back period for debt, thereby imposing a greater burden on the users and the public exchequer. To overcome this bottleneck, the government had set up the India Infrastructure Finance Company Ltd. (IIFCL) with the objective of providing long-term debt for infrastructure projects. However, its lending is restricted to about 30% of the project debt, thus leaving the balance 70% to be raised mainly from the commercial banks.

4. Sourcing long-term funds

4.1 For providing long-term debt to infrastructure projects, it would be necessary to shift from commercial banks to institutions that have the capacity to provide long-term debt. It is also necessary to create a liquid secondary market in debt. Typically, the holders of such long-term debt would be insurance and pension funds (including provident funds), both Indian as well as foreign. In addition, some sovereign funds could also be tapped for this purpose. These funds have so far stayed away from financing Greenfield projects set up by special purpose vehicles since they are regarded as risky investments, especially from the perspective of pension and insurance funds. If this risk perception and liquidity can be suitably addressed, it should be possible to persuade insurance and pension funds to lend for infrastructure projects.

4.2 In addition, multi-lateral institutions such as the IFC and ADB (private sector window) could be invited to participate as Sponsors of the Fund. Further, the World Bank and ADB could also be approached for participating in this Fund through their normal lending window supported by sovereign guarantees.

4.3 The Fund may also be enabled to source upto $ 2 billion from India's forex reserves. This would not only provide the much-needed long-term debt, it would also increase the volume of debt flows to the infrastructure sector which is expected to face a debt crunch in the years to come.

5. The proposed India Infrastructure Debt Fund

This paper outlines a proposal to create an Infrastructure Debt Fund of about Rs. 50,000 crore (US $ 11 billion) and suggests a structure that could address the concerns of all principal stakeholders. The Debt Fund could be set up for a smaller amount and expanded subsequently. This model could also be replicated for setting up other similar funds.

6. Who will set up the Fund?

The Fund will be set up by one or more sponsors (the "**Sponsor**"), who will act as the General Partners of the Fund. The Sponsors could be one or a combination of IIFCL, SBI, ICICI, LIC, IDFC, UTI, an infrastructure NBFC or an investment bank. A combination of two or three General Partners/ Sponsors may be preferred. In addition, the Sponsors may also include one or two foreign entities – such as IFC or ADB – as General Partners in order to enhance the credibility of the Fund from the perspective of foreign investors. The Sponsors would be required to invest at least 10% of the total investment in the form of subordinated debt.

7. Will IRDA and PFRDA approvals be necessary?

IRDA and PFRDA will need to be approached to enable insurance and pension funds (including provident funds) to invest in the proposed Debt Fund by declaring such investments as eligible investments.

8. Will ECB Guidelines apply to foreign debt?

Foreign insurance and pension funds may not be able to invest in view of the extant ECB Guidelines that restrict the flow of foreign debt. RBI would need to be approached for creating a special window for foreign debt with a tenure of 10 years or more to enable the requisite flow of investments in the proposed Fund.

9. Who will be the borrowers?

9.1 Any infrastructure project which is based on Public Private Partnership (PPP) where a public authority has provided for a compulsory buy-out of the project on payment of a pre-determined termination payment shall be eligible to borrow from the Fund. Further, the eligibility would be restricted to projects which have completed at least one year from their entry into commercial service, i.e., their commercial operation date (COD), without any material default in debt service or in the performance of their obligations under the respective project agreements. The lending would also be restricted to projects which are awarded through competitive bidding as they would carry the assurance of a sustainable price discovery. The borrowings from the Fund would be used for discharging the secured debt of the project.

9.2 The Fund would normally cover road, railways, port, metro rail and airport projects that typically provide for a compulsory buy-out by the authority granting the concession. It would also cover power and other projects which fulfill the aforesaid conditions.

10. What about projects other than PPP?

Projects other than PPP will not be eligible for borrowing from the Fund as they do not carry a compulsory buy-out guarantee from a public authority and therefore, pose risks that the Fund may not be able to manage. Moreover, a higher risk perception relating to such projects may raise borrowing costs of the Fund and also pose other difficulties. Since these projects are being set up on the basis of prevailing market conditions, they may continue to rely on available market mechanisms for financing such projects. If the need arises, a separate fund may be explored for such projects. In the meanwhile, such projects may access the recently approved 'take-out' finance facility of IIFCL.

11. What will be the extent of lending for each project?

The Fund would re-finance upto 85% of the outstanding project debt from senior lenders. This would enable the project companies to substitute their existing debt by long-term bonds at comparatively lower interest rates. The restructuring of project debt would also release a large volume of the present lending capacity of the commercial banks, thus enabling them to lend more to new projects.

12. What will be the security and credit enhancement?

12.1 Concessions for PPP projects typically provide that in the event of termination on account of default by the concessionaire, the project would be taken over by the public entity against a termination payment that normally covers much of the project debt. For example, in the case of national and state highways, the concessionaire would be entitled to receive 90% of the project debt which forms part of the agreed project costs. This implies that 90% of the aforesaid debt is guaranteed by the government or a statutory entity and is also secured by an economic asset that would continue to generate revenue streams. Thus, it should be possible for the Fund to take over a significant proportion of the existing debt with minimal risks.

12.2 It would be useful to ensure that the existing senior lenders continue to have some stake in these projects. As noted above, senior lenders would be free to transfer exposure of up to 85% of the project debt to the Fund while retaining at least 15% of their debt exposure for a period of at least seven years from the COD of the respective projects.

12.3 This "exit" financing or re-financing may require the existing loan facility to be synched up with the terms of the Bond debt. The Fund will hold a *pari passu* charge along with senior lenders, but in the event of termination, the Fund will get paid first out of the termination payments due and payable by the project authority and the balance will be appropriated by the senior lenders. This will also minimise the incentive of commercial banks to offer only underperforming assets to the Fund.

12.4 The Fund will subscribe to the project bonds on the basis of a tripartite agreement to be signed among (a) the Fund; (b) the project company; and (c) the project authority (such as NHAI or a state government in the case of highways), and countersigned by the lead bank/ lenders' representative. Under the proposed tripartite agreement, the concerned project authority would guarantee that the termination payment due under the respective project agreements would be transferred to the Fund for discharging its debt in the event of termination. The Fund would also have the right to seek substitution of the concessionaire or trigger a termination event for receiving termination payments if default in debt service by its borrower project company persists beyond 180 days. Such an arrangement would make the bonds virtually risk-free and enable insurance and pension funds to provide long-term and low-cost debt to the Fund.

12.5 All lenders other than the Sponsors would have a *pari passu* charge on the Fund. The Sponsors would provide subordinated debt equal to at least 10% of the total investment in the Fund with a view to improving the return profile for all other participants, thereby lowering the cost of borrowing. This would help reduce the risk perception in respect of the other investors and align the interests of the Sponsors with other lenders as defaults upto 10% of the total lending would be borne entirely by the Sponsors. By way of compensation, the Sponsors may be entitled to an additional return of about 1.5% on their subordinated debt. Further, the subordinated debt provided by the Sponsors shall not be transferred by the Sponsors to any other entity for a period of ten years.

12.6 The Central Government will provide a comfort letter to all lenders to the effect that it would provide assistance and support to the Fund for recovery of its dues from the respective project authorities in accordance with the provisions of the aforesaid tripartite agreements. The comfort letter will clearly exclude any direct or indirect sovereign guarantee in respect of any payment defaults.

13. What will be the instrument of lending?

13.1 The Fund will issue negotiable bonds to its investors. The bonds will carry standardised covenants so as to simplify the credit evaluation process and enhance the potential of secondary trading. As such, the Fund will not borrow on a project-specific basis; it will pool all its borrowings for lending to project companies.

13.2 The project company will be required to issue a negotiable bond to the Fund. In due course, these bonds could be traded in the market, either individually or through an intermediate bond created by securitizing the bonds issued by a group of companies/ SPVs (to enhance secondary market liquidity). The bonds may be issued in two separate streams – one where the source of funds is in foreign currency and the other where the source is in rupees.

14. What will be the interest rate?

The Fund will endeavor to earn a long-term spread of about 100 basis points above the rate of interest paid by the Fund to its investors (the “standard rate”). This margin would cover the operating costs of the Fund, including the premium payable to the Sponsors on their subordinated debt. The balance would be held in a corpus for meeting the liabilities arising out of any non-performing assets (NPAs). The Fund may charge higher rates of interests depending upon the risk perception associated with the respective projects. Since the Fund will compete with the banks and also face pressure from project authorities and sponsors to keep interest rates low, it will have to offer market competitive terms. The Fund will be free to refuse any proposal, fully or partially from a project company. The Fund will also have the freedom to determine the quantum of debt, its tenor and a covenant package that it considers necessary for safeguarding investor capital.

15. Who will bear the exchange risks?

Foreign lenders such as insurance and pension funds which provide low-cost long-term funds would be averse to bearing exchange risks. The Fund would, therefore, assume the exchange risks and manage them through one or more of the following options viz. (a) lend in the denomination of the borrowed funds and allocate the exchange risk to the project company; (b) lend in forex but require the borrower project company to hedge the exchange risk including the roll-over risk of hedging; or (c) charge an interest rate equal to the sum of the interest rate on borrowed funds and a hedge premium equal to the prevailing market rate plus an appropriate spread. Alternatively, the Fund may charge a premium at a flat rate of 3% of the debt and use the premium for creating a separate account for meeting the exchange risks. Any losses beyond the said 3% premium may be underwritten by the Government. The other option would be to encourage leading financial institutions like the SBI to create a long-term hedging facility for this purpose.

16. How will the refinancing gains be shared?

It is expected that interest rates on the debt provided by the Fund to project companies would be lower than the rates paid by such project companies to commercial banks, especially during the construction period. In the UK, it is a common practice to refinance the initial loan of a PPP project to take advantage of reduced risk in the project and also to benefit from a more mature PPP financing market. The refinancing gains are normally shared between the project authority and the project company. On the same analogy, the project authorities in India may appropriate at least 50% of the re-financing gains when they sign the respective Tripartite Agreements referred to above.

17. Will there be an exit route?

17.1 While the risk-perception among domestic investors might be comparatively stable, foreign insurance and pension funds as well as the sovereign funds would require the comfort of an exit route and an independent valuation of the bond portfolio (ideally, a market valuation). Therefore, secondary liquidity will be enhanced by a largely standardised set of bond covenants as well as ratings provided by international rating agencies.

17.2 While all participants would have the freedom to buy and sell among themselves as well as in the secondary market, foreign debt other than multilateral debt (which carries a sovereign guarantee in any case) may also be redeemed by sale to the Sponsor which shall buy one-half of such debt at a discount of about 5% on the residual nominal value of the respective debt. Funds may be raised by the Sponsor for this purpose either on its own or on the strength of a sovereign guarantee or through tax-free bonds. This buy-back provision would have to be determined in consultation with the Finance Ministry for each tranche of the Fund.

18. What will be the legal form of the Fund?

The Fund may be set up and managed as a Trust, to be approved and regulated by SEBI under the Modified Venture Fund Guidelines. This may require an amendment in the Guidelines which presently allow only a part of the Fund to be in the form of debt.

19. Who will manage the Fund?

19.1 The Fund will be an independent legal entity to be managed by a small team of experienced professionals selected for this purpose. In order to carry conviction with the prospective participants, the Fund would be managed by a Fund Manager of international repute who should be perceived as neutral and free of any conflict of interest or moral hazard. The Fund Manager will have the power to accept or reject assets based on its own credit analysis of the projects submitted to it. The remuneration of the Fund Manager may be linked to resource mobilisation, disbursements and the returns of the Fund, subject to a maximum of 25 basis points on the outstanding debt. Lenders to infrastructure projects will have no say in the management of the Fund as they would be the direct beneficiaries of the take-out financing provided by the Fund. An Advisory Board for the Fund shall be constituted with representation from different stakeholder interest groups.

19.2 Selection of the Fund Manager should be preceded by a stringent pre-qualification process aimed at short-listing Fund Managers of international repute and experience. Final selection from amongst the short-listed applicants should be based on financial bids. The entire process should be carried out transparently and in conformity with international best practices. In particular, any conflict of interest should be carefully identified and eliminated.

20. What will be the tenor of lending by the Fund?

20.1 The purpose of setting up this Fund is to provide long-term debt for infrastructure projects and the minimum maturity of bonds to be subscribed by the Fund would, therefore, be ten years. Projects requiring debt for less than ten years can continue to rely on the normal banking system.

20.2 The above debt would be recovered through equated monthly installments (EMI) spread over the remaining tenure of the bonds. The entire repayment shall be completed two years prior to the expiry of the respective project contracts. The project sponsors may also have the option of borrowing 50% of their debt in the form of bonds that will carry a bullet payment for the principal amount. The bullet payment shall be made no later than a date five years prior to the expiry of the respective project agreements. The maximum tenure of debt shall not exceed twenty years.

21. Will there be an exemption from withholding tax?

Foreign investors will be priced out if they are required to pay withholding tax on their interest income. The Finance Ministry would be requested to exempt the interest income from this Fund from payment of withholding tax.

22. From whom would the Fund borrow?

22.1 The Fund should explore various options, domestic as well as foreign, for raising long-term debt. Tentatively, the following could be approached for participating in the proposed Fund to the extent indicated below:

(a)	Domestic insurance/ pension funds	Rs. 20,000 cr.
(b)	Foreign insurance/ pension funds	Rs. 10,000 cr.
(c)	Foreign sovereign funds	Rs. 10,000 cr.
(d)	World Bank/ ABB	Rs. 5,000 cr.
(e)	Sponsors (IIFCL, SBI, ICICI, UTI, IDFC etc.)	Rs. 5,000 cr.
	Total	Rs. 50,000 cr.

22.2 The above amounts may be raised in multiple tranches over a period of three years based on the emerging disbursement opportunities.

22.3 To begin with, the Fund may seek investments from domestic sources and gradually invite foreign investors to join over time. The option of setting up multiple funds for different target groups should also be kept open.

22.4 This entire exercise should be viewed as one among several initiatives for financing infrastructure projects. It should not only supplement the existing efforts but also enable competing entities to enter the market.

22.5 The Fund may also be allowed to issue long-term bonds for investments by non-resident Indians.

23. How will the Sponsors raise their contribution?

Sponsors may be allowed to raise their contribution by issuing tax-free bonds under the scheme recently announced by the Finance Minister. Alternatively, a government guarantee may be provided in the case of institutions like the IIFCL for raising the requisite funding. In some cases, the Sponsors may be able to raise the required funds without any government support.

24. What will be the role of the Government?

24.1 The role of the Government will be one of an enabler and facilitator. The borrowings of the Fund will not be guaranteed by the Government except in the case of loans from the World Bank and ADB as they cannot lend without a sovereign guarantee. The Government may consider providing guarantees or tax-free bonds for raising the Sponsors' contribution, on a case by case basis. The Fund would, therefore, have to face the market test in its evolution as well as in its operation. However, to kick-start the process, the Government may play a pro-active role in setting up the first such Fund.

24.2 The Government would need to play a pro-active role not only for providing the requisite support but also for persuading the relevant authorities to create the enabling environment. An indicative list of the approvals/clearances required from different authorities is attached at Annex-I.

25. Expected outcomes

The proposed Fund is expected to deliver the following outcomes:

(a) The Fund will provide additional debt of about Rs. 50,000 cr. for infrastructure projects and help bridge the likely gap in debt financing.

(b) The Fund will provide long-term low-cost debt for infrastructure projects, which the Indian debt markets are unable to provide at present.

(c) The costs and tariffs of infrastructure services would go down as a result of the lower-cost, long-term debt provided by the Fund.

(d) Banks are increasingly getting constrained by their exposure norms relating to sectors, borrowers and projects. The Fund will take over a fairly large volume of the existing bank debt that will release an equivalent volume for fresh lending to infrastructure projects.

(e) The Fund will help accelerate the evolution of a secondary market for bonds which is presently lacking in India.

(f) Besides supporting infrastructure development, the Fund will provide gainful opportunities to the insurance and pension funds, domestic as well as foreign.

Approvals required for the India Infrastructure Debt Fund

A. SEBI

Modified Venture Capital Fund Guidelines

1. VCF Guidelines to be amended to incorporate/ allow venture capital funds to invest 100% in debt (Reference – Rule 12)

2. VCF Guidelines to be amended to allow a 100% debt fund to list VCF's bonds/ notes/ units with the proviso that the bonds/ notes/ units have to obtain investment grade credit rating (Reference – Rule 13)

3. In case necessary, SEBI could issue a fresh set of guidelines for funds of this nature.

4. Investments in this Fund will not form part of the existing limits prescribed by SEBI for investments in corporate bonds by FIIs.

B. RBI

With reference to ECB Guidelines

1. Fund to be notified as an "approved lender" for the purposes of the ECB guidelines.

2. Fund's on-lending to PPP projects for refinancing should be allowed, provided the tenor of debt is for a minimum period of 10.

3. Separate ECB allocation for long-term borrowings with a minimum tenor of 10 years.

C. Income Tax Act

1. Amend section 10(23 F) (B) – This section provides that any income by way of dividends or long term capital gains of a VCF from investments made by way of equity shares in a Venture Capital Undertaking (VCU) shall be exempt. VCU is defined as a domestic unlisted company. An amendment would be required to exempt income from investment in

specified debt (i.e., debenture, bonds & loans) made by the VCF in VCU. Also, since the bonds issued by VCU to the VCF are expected to be listed, clarity would be required that such VCF should be allowed to invest in the specified debt of VCU and provide for listing of such specified debt. Listing of "specified debt" (i.e., debentures, bonds, etc.) should not be treated by Income Tax authorities as if the VCU is a "listed company".

2. Section 10(15) (iv) – to be amended to provide that any income payable by a VCF notified by the Government and engaged in providing long term finance for infrastructure projects and also eligible for deduction u/s 36 (i) (viii) shall be exempt from tax. 3. Section 195 (1) – amendment to second proviso of Section 195 (1) to exempt any income/ interest payable by VCF to a non-resident including a foreign company (presently dividend is exempt).

D. IRDA

1. Approved investment – investment in bonds/ notes/ units of the Fund and having AA or above credit rating to be notified as approved investment.

2. Investment in bonds/ notes/ units of the Fund having AA or above credit rating to qualify as infrastructure exposure.

3. Exposure Norms – since the Fund does not have an equity capital/ networth, the rule pertaining to 20% of networth + bonds/ capital employed should not be applicable.

E. PFRDA

1. Eligible investment – investment in bonds/ notes/ units of the Fund and having "investment grade" credit rating or above to be notified as eligible/ approved investment.

2. EPFO/ CBOT – PF Commissioner's investment guidelines to be modified to allow EPFO/ CBOT to invest in bonds/ notes/ units of the Fund having a credit rating of AA or above.