DBOD. No. BP. 256 / 21.04.098/ 2007-08

September 5, 2007

To
Chairmen / Chief Executive Officers
All Commercial Banks
(excluding RRBs)

Guidelines on Asset-Liability Management (ALM) System –
Draft Amendments

Reserve Bank had issued guidelines on ALM system vide Circular No. DBOD. BP. BC. 8 / 21.04.098/ 99 dated February 10, 1999, which covered, among others, interest rate risk and liquidity risk measurement / reporting framework and prudential limits. As a measure of liquidity management, banks are required to monitor their cumulative mismatches across all time buckets in their Statement of Structural Liquidity by establishing internal prudential limits with the approval of the Board / Management Committee. As per the guidelines, the mismatches (negative gap) during the time buckets of 1-14 days and 15-28 days in the normal course, are not to exceed 20 per cent of the cash outflows in the respective time buckets.

2. Having regard to the international practices, the level of sophistication of banks in India, the need for a sharper assessment of the efficacy of liquidity management and with a view to providing a stimulus for development of the term-money market, these guidelines have been reviewed and it has been decided that :

(a) the banks may adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days at present) in the Statement of Structural Liquidity into three time buckets viz., next day , 2-7 days and 8-14 days.

(b) The net cumulative negative mismatches during the Next day, 2-7 days, 8-14 days and 15-28 days buckets should not exceed 5 % ,10%, 15 % and 20 % of the cumulative cash outflows in the respective time buckets in order to recognise the cumulative impact on liquidity.

3. The format of Statement of Structural Liquidity has been revised suitably and is furnished at Annex I. The guidance for slotting the future cash flows of banks in the revised time buckets has also been suitably modified and is furnished at Annex II.

4. To enable the banks to fine tune their existing MIS as per the modified guidelines, the revised norms as well as the supervisory reporting as per the revised format would commence with effect from the period beginning January 1, 2008 and the reporting frequency would continue to be monthly for the present. However, the frequency of supervisory reporting of the Structural Liquidity position shall be fortnightly, with effect from the fortnight beginning April 1, 2008.

5. The guidelines to amendments on Asset-Liability Management (ALM) System are being issued as a draft for feedback from all concerned. The draft will be open for comments for a period of 10 days. Your comments / feedback may be sent to the undersigned at the following address and by email within a period of 10 days from the date of this letter.

Department of Banking Operations and Development
Reserve Bank of India
12th floor, Central Office Building
Shahid Bhagat Singh Marg
Mumbai – 400 001

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge

Annex - I

Name of the bank **:**

Statement of Structural Liquidity as on :

(Amounts in Crores of Rupees)

	Residual maturity										
OUTFLOWS	Day 1	2-7 days	8-14 days	15 -28 days	29 days and upto 3months	Over 3 months and upto 6months	Over 6 Month and upto 1year	Over 1 year and upto 3 years	Over 3 years and upto 5years	Over 5years	Total
1. Capital											
2. Reserves & Surplus											
3. Deposits	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i) Current Deposits											
(ii) Savings Bank Deposits											
(iii) Term Deposits											
(iv) Certificates of Deposit											
4. Borrowings	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i) Call and Short Notice											
(ii) Inter-Bank (Term)											
(iii) Refinances											
(iv) Others (specify)											
5.Other Liabilities & Provisions	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i) Bills Payable											
(ii) Inter-office Adjustment											
(iii) Provisions											
(iv) Others											
6.Lines of Credit committed to	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i) Institutions											
(ii) Customers											
7. Unavailed portion of Cash Credit / Overdraft / Demand Loan component of Working Capital											
8. Letters of Credit / Guarantees											
9. Repos											
10. Bills Rediscounted (DUPN)											
11.Swaps (Buy/Sell) / maturing forwards											
12. Interest payable											
13. Others (specify)											
A. TOTAL OUTFLOWS											
B. CUMULATIVE OUTFLOWS											

INFLOWS	Residual Maturity										
	Day1	2-7 days	8-14 days	15 -28 days	29 days and upto 3 months	Over 3 months and upto 6months	Over 6 months and upto 1year	Over 1 year and upto 3years	Over 3 years and upto 5 years	Over 5years	Total
1. Cash											
2. Balances with RBI											
3.Balances with other Banks	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i) Current Account											
(ii) Money at Call and Short Notice, Term Deposits and other placements											
4.Investments (including those under Repos but excluding Reverse Repos)											
5. Advances (Performing)	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i) Bills Purchased and Discounted (including bills under DUPN)											
(ii) Cash Credits, Overdrafts and Loans repayable on demand											
(iii) Term Loans											
6. NPAs (Advances and Investments) *											
7. Fixed Assets											
8. Other Assets	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
(i)Inter-office Adjustment											
(ii) Leased Assets											
(iii) Others											
9. Reverse Repos											
10. Swaps (Sell / Buy)/ maturing forwards											
11. Bills Rediscounted (DUPN)											
12. Interest receivable											
13. Committed Lines of Credit											
14. Export Refinance from RBI.											
15. Others (specify)											
C. TOTAL INFLOWS											
D. MISMATCH (C-A)											
E. MISMATCH as % to OUTFLOWS (D as % to A)											
F. CUMULATIVE MISMATCH											
G. CUMULATIVE MISMATCH as a % to CUMULATIVE OUTFLOWS (F as a % to B)											

- Net of provisions, interest suspense and claims received from ECGC/DICGC.

Annex II

Guidance for slotting the future cash flows of banks in the revised time buckets

Heads of Accounts	**Classification into time buckets**
A. Outflows	
1. Capital, Reserves and Surplus	Over 5 years bucket.
2. Demand Deposits (Current and Savings Bank Deposits)	Savings Bank and Current Deposits may be classified into volatile and core portions. Savings Bank (10%) and Current (15%) Deposits are generally withdrawable on demand. This portion may be treated as volatile. While volatile portion can be placed in the *Day 1* time bucket, the core portion may be placed in over 1- 3 years bucket. The above classification of Savings Bank and Current Deposits is only a benchmark. Banks which are better equipped to estimate the behavioural pattern, roll-in and roll-out, embedded options, etc. on the basis of past data/empirical studies could classify them in the appropriate buckets, i.e. behavioural maturity instead of contractual maturity, subject to the approval of the Board/ALCO.
3. Term Deposits	Respective maturity buckets. Banks which are better equipped to estimate the behavioural pattern, roll-in and roll-out, embedded options, etc. on the basis of past data/empirical studies could classify the retail deposits in the appropriate buckets on the basis of behavioural maturity rather than residual maturity. However, the wholesale deposits should be shown under respective maturity buckets. *(wholesale deposits for the purpose of this statement may be Rs 15 lakhs or any such higher threshold approved by the bank's Board)* .
4. Certificates of Deposit, Borrowings and Bonds (including Sub-ordinated Debt)	Respective maturity buckets. Where call/put options are built into the issue structure of any instrument/s, the call/put date/s should be reckoned as the maturity date/s and the amount should be shown in the respective time buckets.
5. **Other Liabilities and Provisions**	
i) Bills Payable (ii) Provisions other than for loan loss and depreciation in investments (iii) Other Liabilities	The core component which could reasonably be estimated on the basis of past data and behavioural pattern may be shown under over 1-3 years time bucket. The balance amount may be placed in *Day 1* bucket. Respective buckets depending on the purpose. Respective maturity buckets. Items not representing cash payables (i.e. income received in advance, etc.) may be placed in over 5 years bucket.
6. Export Refinance – Availed	Respective maturity buckets of underlying assets.

Heads of Accounts	**Classification into time buckets**
B. Inflows	
1. Cash	*Day 1* bucket.
2. Balances with RBI	While the excess balance over the required CRR/SLR may be shown under *Day 1* bucket, the Statutory Balances may be distributed amongst various time buckets corresponding to the maturity profile of DTL with a time-lag of 14 days.
3. **Balances with other banks** (i) Current Account (ii) Money at Call and Short Notice, Term Deposits and other placements	(i) Non-withdrawable portion on account of stipulations of minimum balances may be shown under over 1-3 years bucket and the remaining balances may be shown under *Day 1* bucket. (ii) Respective maturity buckets.
4. **Investments (Net of provisions)#**	
(i) Approved securities	i) Respective maturity buckets excluding the amount required to be reinvested to maintain SLR corresponding to the DTL profile in various time buckets.
(ii) Corporate debentures and bonds, PSU bonds, CDs and CPs, Redeemable preference shares, Units of Mutual Funds (close ended), etc.	(ii) Respective maturity buckets. Investments classified as *NPIs* should be shown under over 3-5 years bucket (sub-standard) or over 5 years bucket (doubtful).
(iii) Shares/Units of Mutual Funds (open ended)	(iii) Over 5 years bucket.
(iv) Investments in Subsidiaries/ Joint Ventures	(iv) Over 5 years bucket.

Provisions may be netted from the gross investments provided provisions are held security-wise. Otherwise provisions should be shown in over 5 years bucket.

Heads of Accounts	Classification into time buckets
(v) Securities in the Trading Book	(v) *Day 1, 2-7 days, 8-14 days*, 15-28 days and 29-90 days according to defeasance periods.
5 Advances (Performing)	
(i) Bills Purchased and Discounted (including bills under DUPN)	(i) Respective maturity buckets.
(ii) Cash Credit / Overdraft (including TOD) and Demand Loan component of Working Capital.	(ii) Banks should undertake a study of behavioural and seasonal pattern of availments based on outstandings and the core and volatile portion should be identified. While the volatile portion could be shown in the near-term maturity buckets, the core portion may be shown under over 1-3 years bucket.
(iii) Term Loans	(iii) *The cash flows on account of the interest and principal of the loan* may be shown under respective maturity buckets.
6. NPAs (Net of provisions, interest suspense and claims received from ECGC/DICGC)	
(i) Sub-standard	(i) Over 3-5 years bucket.
(ii) Doubtful and Loss	(ii) Over 5 years bucket.
7. Fixed Assets/ *Assets on lease*	Over 5 years bucket *Interim cash flows may be shown under respective maturity buckets.*
8. Other Assets (i) *Intangible assets*	 Intangible assets and assets not representing cash receivables may be shown in over 5 years bucket.
C. Off balance sheet items	
1. Lines of Credit committed / available	
(i) Lines of Credit committed to/ from Institutions / Export refinance (ii) Unavailed portion of Cash Credit/ Overdraft / Demand loan component of Working Capital limits (outflow) (iii) Export Refinance – Unavailed (inflow)	(i) *Day 1* bucket. (ii) Banks should undertake a study of the behavioural and seasonal pattern of potential availments in the accounts and the amounts so arrived at may be shown under relevant maturity buckets upto 12 months. (iii) *8-14* days bucket.

Heads of Accounts	Classification into time buckets
2. Contingent Liabilities Letters of Credit / Guarantees (outflow)	Devolvement of Letters of Credit/Guarantees, initially entails cash outflows. Thus, historical trend analysis ought to be conducted on the devolvements and the amounts so arrived at in respect of outstanding Letters of Credit / Guarantees (net of margins) should be distributed amongst various time buckets. The assets created out of devolvements may be shown under respective maturity buckets on the basis of probable recovery dates.
3. Other Inflows / outflows (i) Repos / Bills Rediscounted (DUPN) / Swaps INR / USD, maturing forex forward contracts etc. (outflow / inflow)	Respective maturity buckets.
(ii) Interest payable / receivable (outflow / inflow) – Accrued interest which are appearing in the books on the reporting day	Respective maturity buckets.

Note :

(i) Liability on account of event cash flows i.e. short fall in CRR balance on reporting Fridays, wage settlement, capital expenditure, etc. which are known to the banks and any other contingency may be shown under respective maturity buckets. *The event cash outflows, including incremental SLR requirement should be reported against "Outflows – Others".*

(ii) All overdue liabilities may be placed in the *Day 1* bucket.

(iii) Interest and instalments from advances and investments, which are overdue for less than one month may be placed in '*29 days to 3 months* bucket'. Further, interest and instalments due (before classification as NPAs) may be placed in '29 days to 3 months bucket' if the earlier receivables remain uncollected.

D. Financing of Gap :

In case the *net cumulative negative mismatches during the Day 1, 2-7 days, 8-14 days and 15-28 days buckets exceed the prudential limit of 5 % ,10%, 15 % and 20% of the cumulative cash outflows in the respective time buckets* the bank may show by way of a foot note as to how it proposes to finance the gap to bring the mismatch within the prescribed limits. The gap can be financed from market borrowings (call / term), Bills Rediscounting, Repos and deployment of foreign currency resources after conversion into rupees (unswapped foreign currency funds), etc.