

Draft Large Exposures Framework

1. Introduction

1.1 A bank's exposures to its counterparties may result in concentration of its assets to a single counterparty or a group of connected counterparties. As a first step to address the concentration risk, the Reserve Bank, in March 1989, fixed limits on bank exposures to an individual business concern and to business concerns of a group. RBI's prudential exposure norms have evolved since then and a bank's exposure to a single borrower and a borrower group is currently restricted to 15 percent and 40 percent of capital funds respectively. A comprehensive policy framework on the subject is consolidated in the Master Circular – Exposure Norms/Master Direction - Prudential Norms on Banks' Exposures.

1.2 In January 1991, the Basel Committee on Banking Supervision (BCBS) issued supervisory guidance on large exposures, viz., Measuring and Controlling Large Credit Exposures. Further, the Core Principles for Effective Banking Supervision (Core Principle 19), published by BCBS in October 2006 (since revised in September 2012) prescribed that local laws and bank regulations set prudent limits on large exposures to a single borrower or a closely related group of borrowers. In order to foster a convergence among widely divergent national regulations on dealing with large exposures, the BCBS issued the Standards on 'Supervisory framework for measuring and controlling large exposures' in April 2014. The Reserve Bank has decided to suitably adopt these standards for banks in India and, accordingly, a draft policy framework on banks' Large Exposures (LE) is described in the following paragraphs.

2. Scope of application

2.1 Since the LE Framework is constructed to serve as a backstop to and complement the risk-based capital standards, it must apply at the same level as the risk-based capital requirements are to be applied, that is, a bank shall comply with the LE norms at two levels: (a) consolidated (Group¹) level and (b) Solo² level.

¹This requires that banks shall apply LE framework at the consolidated group level, after consolidating the assets and liabilities of its subsidiaries / joint ventures / associates (including overseas operations through bank's branches) etc., except those engaged in insurance and any non-financial activities

² Banks shall apply LE framework at the standalone level also (including overseas operations through branches), which should measure the exposures to a counterparty based on its standalone capital strength and risk profile

2.2 The application of the LE framework at the consolidated level implies that a bank must consider exposures of all the banking group entities (including overseas operations through branches and subsidiaries) under regulatory scope of consolidation, to counterparties and compare the aggregate of those exposures with the banking group's eligible consolidated capital base for the purpose of complying with the framework.

3. Scope of counterparties and exemptions

3.1 Under the LE Framework, a bank's exposure to all its counterparties and groups of connected counterparties, excluding the exposures listed below³, will be considered for exposure limits. The exposures that will be exempted from the Framework are listed below:

- a. Exposures to the Government of India and State Governments which are eligible for zero percent Risk Weight under the Basel III – Capital Regulation framework of the Reserve Bank of India;
- b. Reserve Bank of India;
- c. Exposures where the principal and interest are fully guaranteed by the Government of India;
- d. Credit facilities (both funded and non-funded) granted against the security of a bank's own term deposit, to the extent the bank has a specific lien on such deposits;
- e. Intra-day interbank exposures;
- f. Intra-group exposures⁴
- g. Borrowers, to whom limits are authorised by the Reserve Bank for food credit;
- h. Banks' clearing activities related exposures to Qualifying Central Counterparties (QCCPs), till further notification as detailed in paragraph 10.1 of this draft circular.

³ The exemptions currently available to exposures not listed herein will cease to exist under the LE Framework.

⁴ Intra-group exposures will continue to be governed by the Guidelines on Management of Intra-Group Transactions and Exposures' contained in the Master Circular – Exposure Norms / Master Direction - Prudential Norms on Banks' Exposures.

3.2 However, a bank's exposure to an exempted entity which is hedged by a credit derivative shall be treated as an exposure to the counterparty providing the credit protection.

3.3 All exempted exposures must be reported by a bank as required under regulatory reporting specified in paragraph 4.2 below, if these exposures meet the criteria for definition of a 'Large Exposure' as per para 4.1 below.

4. Definition of a large exposure and regulatory reporting

4.1. Under the LE Framework, the sum of all exposure values of a bank (measured as specified in paragraphs 7, 8, 9 and 10 of this framework) to a counterparty or a group of connected counterparties (as defined in paragraph 6 below) is defined as a large exposure, if it is equal to or above 10 percent of the bank's eligible capital base (i.e., Tier 1 capital as specified in paragraph 5.1 below).

4.2. Banks will be required to report to the Reserve Bank of India, Department of Banking Supervision, Central Office, (DBS, CO), as per the reporting template given in Appendix I. The reporting, inter-alia, will include the following:

- (i) all exposures, measured without the effect of credit risk mitigation, with values equal to or above 10 percent of the bank's eligible capital base (i.e., meeting the definition of a large exposure as per para 4.1 above);
- (ii) all the exempted exposures (except intraday inter-bank exposures) with values equal to or above 10 percent of the bank's eligible capital base;
- (iii) 20 largest exposures included in the scope of application, irrespective of the values of these exposures relative to the bank's eligible capital base.

5. The Large Exposure limits

5.1 Single Counterparty: The sum of all the exposure values of a bank to a single counterparty must not be higher than 20 percent of the bank's available eligible capital base at all times. In exceptional cases, Boards of banks may allow an additional 5 percent of the bank's available eligible capital base. Banks should lay down a Board approved policy in this regard.

5.2 Groups of Connected Counterparties: The sum of all the exposure values of a bank to a group of connected counterparties (as defined in paragraph 6 of this draft

framework) must not be higher than 25 percent of the bank's available eligible capital base at all times.

5.3 The *eligible capital base* for this purpose is the effective amount of Tier 1 capital fulfilling the criteria defined in Master Circular on Basel III – Capital Regulation / Master Direction on 'Basel III Capital Regulations' as updated from time to time. Further, the exposures must be measured as specified in paragraphs 8 -10 *ibid*.

5.4 However, the above LE limits will be modulated in cases of certain counterparties as mentioned in paragraph 10 *ibid*.

5.5 Any breach of the above LE limits should be under exceptional conditions only. The same should be reported to RBI (DBS, CO) immediately and rectified at the earliest but not later than a period of 30 days from the date of the breach.

6. Definition of connected counterparties

6.1 Two or more natural or legal persons shall be deemed to be a group of connected counterparties, if at least one of the following criteria is satisfied:

- (a) **Control relationship:** one of the counterparties, directly or indirectly, has control over the other(s).
- (b) **Economic interdependence:** if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s), as a result, would also be likely to encounter substantive funding or repayment difficulties.

6.2 Banks must assess the relationship amongst counterparties with reference to the above criteria in order to establish the existence of a group of connected counterparties. In assessing whether there is a control relationship between counterparties, banks must automatically consider that the control relationship criterion (paragraph 6.1(a) above) is satisfied if one entity owns more than 50 percent of the voting rights of the other entity. In addition, banks must assess connectedness between counterparties based on control using the following evidences:

- a. Voting agreements (e.g., control of a majority of voting rights pursuant to an agreement with other shareholders);

- b. Significant influence on the appointment or dismissal of an entity's administrative, management or supervisory body, such as the right to appoint or remove a majority of members in those bodies, or the fact that a majority of members have been appointed solely as a result of the exercise of an individual entity's voting rights;
- c. Significant influence on senior management, e.g., an entity has the power, pursuant to a contract or otherwise, to exercise a controlling influence over the management or policies of another entity (e.g., through consent rights over key decisions).

6.3 Banks are also expected to refer to criteria specified in the extant accounting standards for further qualitative guidance when determining control.

6.4 Where control has been established based on any of the above criteria, a bank may still demonstrate to the Reserve Bank, in exceptional cases, that such control does not necessarily result in the entities concerned constituting a group of connected counterparties e.g., existence of control between counterparties due to specific circumstances and corporate governance safeguards.

6.5 Criteria for Economic Dependence: Presence of one or more of the following qualitative criteria will qualify two or more counterparties for having economic dependence. These are the minimum criteria which a bank must examine while establishing connectedness based on economic dependence between its counterparties:

- a. A substantial (say 75 percent or more) portion of one counterparty's gross receipts or gross expenditures (on an annual basis) deriving from transactions with the other counterparty (e.g. the owner of a residential/commercial property and the tenant who pays a significant part of the rent);
- b. Full or partial guarantee of exposure (say 75 percent or more) of one counterparty by another counterparty, a counterparty having obligation to assume liability of exposure of another counterparty by any other means, and where the exposure is so significant that the guarantor is likely to default if a claim occurs;

- c. A significant part of sales of one counterparty's production/output (say 75 percent or more) to another counterparty, which cannot easily be replaced by other customers;
- d. In cases of loans extended by one counterparty to another, the expected source of funds to repay each loan being the same and the debtor counterparty not having another source of income from which the loan can be fully repaid;
- e. In any other situation, where financial problems of one counterparty are likely to cause material difficulties for the other counterparties in terms of full and timely repayment of liabilities;
- f. The insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other(s);
- g. The funding problems of one counterparty are likely to spread to another due to a one-way or two-way dependence by them on the same main funding source and non-availability of alternative source of funds in the event of the common provider's default.

6.6 There may, however, be circumstances where some of the above criteria do not automatically imply an economic dependence that results in two or more counterparties being connected. In such cases, if a bank can demonstrate to the RBI that a counterparty, which is economically closely related to another counterparty, may overcome financial difficulties, or even the second counterparty's default, by finding alternative business partners or funding sources within an appropriate time period, the bank need not combine these counterparties to form a group of connected counterparties.

6.7 There may be cases where a thorough investigation of economic dependencies will not be proportionate to the size of the exposures. Therefore, banks will be expected to necessarily identify possible connected counterparties on the basis of economic dependence only in cases where the sum of all exposures to one individual counterparty exceeds 5 percent of the eligible capital base.

6.8 In view of the practical difficulties involved in identifying the relationship between counterparties on the basis of economic dependence criteria, it has been decided to allow banks some discretion in this regard for an initial period of two years.

Therefore, for the first two years, while the banks may decide to identify the 'Groups of connected counterparties' on the basis of *economic dependence criteria* on a best effort basis as per their Board approved policy, this provision will not mandatorily apply on immediate basis.

6.9 Where two (or more) entities not exempted in terms of paragraphs 3.1 (a), (b), (c) and (d), and not otherwise connected, are controlled by or/and economically dependent on an entity exempted in terms of paragraphs *ibid*, they need not be deemed to constitute a group of connected counterparties. For example, two unconnected Government owned PSUs will not form a group of connected counterparties.

7. Values of exposures

7.I General measurement principles

7.1 Under the proposed LE Framework, an exposure to a counterparty will constitute both on and off-balance sheet exposures included in either the banking or trading book and instruments with counterparty credit risk. Definitions and measurements of such exposures are given in this section.

7.II Definitions of exposure values under the LE Framework

7.2 Banking book on-balance sheet non-derivative assets: The exposure value should be defined as the accounting value of the exposure and gross of specific provisions and value adjustments.

7.3 Banking book and trading book OTC derivatives (and any other instrument with counterparty credit risk): The exposure value for instruments which give rise to counterparty credit risk and are not securities financing transactions, should be the exposure at default according to the 'Standardised Approach – Counterparty Credit Risk (SA-CCR)⁵, which are being developed by the RBI. Till the time the guidelines in the matter are finalised, the extant instructions as prescribed by the Reserve Bank for the counterparty credit risk⁶ should be adhered to for this purpose.

⁵See BCBS, March 2014, The Standardised Approach for measuring counterparty credit risk exposures at <http://www.bis.org/publ/bcbs279.htm>

⁶ Refer to RBI Master Circular – Exposure norms / Master Direction – Basel III Capital Regulation, amended from time to time

7.4 Securities financing transactions (SFTs): Banks should use the method they currently use for calculating their risk-based capital requirements against SFTs.

7.5 Banking book “traditional” off-balance sheet commitments: For the purpose of the LE framework, off-balance sheet items will be converted into credit exposure equivalents through the use of credit conversion factors (CCFs) by applying the CCFs set out for the Standardised Approach for credit risk for risk-based capital requirements, with a floor of 10 percent.

7.III. Calculation of exposure value for Trading Book positions

7.6 A bank must add any exposures to a counterparty arising in the trading book to any other exposures to that counterparty that lie in the banking book to calculate its total exposure to that counterparty. The exposures considered here correspond to concentration risk associated with the default of a single counterparty for exposures included in the trading book. Therefore, a bank’s exposures to financial instruments issued by counterparties not exempted under this Framework will be governed by the LE limit, but concentrations in a particular commodity or currency will not be.

7.7 The exposure value of straight debt instruments and equities will be equal to the accounting value of the exposure⁷

7.8 Instruments such as swaps, futures, forwards and credit derivatives⁸ must be converted into positions following the risk-based capital requirements⁹. These instruments should be decomposed into their individual legs. Only transaction legs representing a bank’s exposures to the counterparty within the scope of the large exposures framework should be considered¹⁰ for calculating a bank’s total exposure to that counterparty.

7.9 In the case of credit derivatives that represent sold protection, the exposure will be to the referenced name, and it will be the amount due in case the respective

⁷ As provided in terms of our RBI Master Circular – Exposure norms / Master Direction on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks.

⁸CDS is the only credit derivative allowed under our extant guidelines

⁹Refer Master Direction - Basel III Capital Regulations

¹⁰A future on stock X, for example, is decomposed into a long position in stock X and a short position in a risk-free interest rate exposure in the respective funding currency, or a typical interest rate swap is represented by a long position in a fixed and a short position in a floating interest rate exposure or vice versa.

referenced name triggers the instrument, minus the absolute value of the credit protection¹¹. For credit-linked notes (CLNs)¹², the protection seller bank will be required to consider its positions both in the bond of the note issuer and in the underlying referenced by the note.

7.10 The measures of exposure values of options under this framework differ from the exposure value used for risk-based capital requirements. The exposure value of option under this framework will be based on the change(s) in option prices that would result from a default of the respective underlying instrument. The exposure value for a simple long call option would therefore be its market value and for a short put option would be equal to the strike price of the option minus its market value. In the case of short call or long put options, a default of the underlying would lead to a profit (i.e., a negative exposure) instead of a loss, resulting in an exposure of the option's market value in the former case and equal the strike price of the option minus its market value in the latter case. The resulting positions in all cases should be aggregated with those from other exposures. After aggregation, negative net exposures shall be treated as zero.

7.11 Exposure values of banks' investments in transactions (i.e., index positions, securitisations, hedge funds or investment funds) must be calculated applying the same rules as for similar instruments in the banking book (see paragraphs under 8.3 to 8.11).

7.IV. Offsetting long and short positions in the trading book

7.12 Offsetting between long and short positions in the same issue: Banks may offset long and short positions in the same issue (two issues are defined as the same if the issuer, coupon, currency and maturity are identical). Consequently, banks may consider a net position in a specific issue for the purpose of calculating a bank's exposure to a particular counterparty.

¹¹In the case that the market value of the credit derivative is positive from the perspective of the protection seller, such a positive market value would also have to be added to the exposure of the protection seller to the protection buyer (counterparty credit risk; see paragraph 7.3 of this draft circular). Such a situation could typically occur if the present value of already agreed but not yet paid periodic premiums exceeds the absolute market value of the credit protection.

¹²CLNs are not permitted to be issued by banks in India under the extant RBI guidelines

7.13 Offsetting between long and short positions in different issues: Positions in different issues from the same counterparty may be offset only when the short position is junior to the long position, or if the positions are of the same seniority.

7.14 Similarly, for positions hedged by credit derivatives, the hedge may be recognised provided the underlying of the hedge and the position hedged fulfil the provision of paragraph 7.13 above (the short position is junior or of equivalent security to the long position).

7.15 In order to determine the relative seniority of positions, securities may be allocated into broad buckets of degrees of seniority (for example, “Equity”, “Subordinated Debt” and “Senior Debt”).

7.16 For those banks that find it excessively burdensome to allocate securities to different buckets based on relative seniority, they should not recognise offsetting of long and short positions in different issues relating to the same counterparty in calculating exposures.

7.18 Offsetting short positions in the trading book against long positions in the banking book: Netting across the banking and trading books is not permitted.

7.19 Net short positions after offsetting: When the result of the offsetting is a net short position with a single counterparty, this net exposure need not be considered as an exposure for the purpose of LE Framework.

8. Treatment of specific exposure types

8.1 This section covers exposures for which a specific treatment is deemed necessary.

Interbank Exposures

8.2 Under the BCBS ‘Standards’, the interbank exposures, except intra-day interbank exposures, are to be subject to the large exposure limit of 25% of a bank’s Tier 1 capital till a further review by the BCBS. However, as indicated in the ‘Standards’, the BCBS is currently reviewing this provision. Accordingly, the Reserve Bank will also take a review in the matter one year after issue of the final guidelines on the Large Exposures Framework. The existing market specific limits

on 'Call Money and Notice Money Borrowing and Lending'¹³ and 'Interbank Liabilities'¹⁴ will continue to be applicable simultaneously till a further review.

Collective Investment Undertakings (CIUs), securitisation vehicles and other structures - adoption of "Look Through Approach" (LTA)

8.3 There are cases when a structure lies between the bank and its exposures, that is, the bank invests in structures through an entity which itself has exposures to assets underlying the structures (hereafter referred to as the "underlying assets"). In all such cases, banks must assign the exposure amount, i.e., the amount invested in a particular structure, to specific counterparties following the approach described below in paragraphs 8.4 through 8.10. Such structures include funds, securitisations and other structures with underlying assets.

Determination of the relevant counterparties to be considered

8.4 In cases where a bank has exposure to a structure and it can be demonstrated that the portion of the bank's exposure amount assigned to each underlying asset of the structure is smaller than 0.25 percent of its eligible capital base, it may assign the total exposure amount to the structure itself, defined as a distinct counterparty. For this purpose, only the exposures to the underlying assets that result from the investment in the structure itself should be considered, and the exposure value should be calculated according to paragraphs 8.9 and 8.10¹⁵. In such cases, a bank is not required to look through the structure to identify the underlying assets.

8.5 A bank must look through the structure to identify those underlying assets for which the underlying exposure value is equal to or above 0.25 percent of its eligible capital base. In this case, the counterparty corresponding to each of the underlying assets must be identified so that these underlying exposures can be added to any other direct or indirect exposure to the same counterparty. The bank's exposure amount to the underlying assets that are below 0.25 percent of the bank's eligible capital base may be assigned to the structure itself (i.e., partial look-through is permitted).

¹³[Master Circular IDMD.PCD.03/14.01.01/2014-15 dated July 1, 2014](#) on Call / Notice Money Market Operations

¹⁴Master Direction – Prudential Norms on Banks' Exposures

¹⁵By definition, this required test will be passed if the bank's whole investment in a structure is below 0.25% of its eligible capital base.

8.6 If a bank is unable to identify the underlying assets of a structure:

- where the total amount of its exposure does not exceed 0.25 percent of its eligible capital base, the bank must assign the total exposure amount of its investment to the structure;
- otherwise, it must assign this total exposure amount to the unknown client.

The bank must aggregate all unknown exposures as if they related to a single counterparty (the unknown client), to which the LE limit would apply.

8.7 When the look-through approach (LTA) is not required in terms of paragraph 8.4 above, a bank must, nevertheless, be able to demonstrate that regulatory arbitrage considerations have not influenced the decision whether to look through or not e.g. the bank has not circumvented the LE limit by investing in several individually immaterial transactions with identical underlying assets.

8.8 Calculation of underlying exposures - bank's exposure amount to underlying assets: If the LTA is not required to be applied, a bank's exposure to the structure must be the nominal amount it invests in the structure.

8.9 Any structure where all investors rank pari passu (e.g., CIU)- When the LTA is required according to the paragraphs above, the exposure value assigned to a counterparty is equal to the pro rata share that the bank holds in the structure multiplied by the value of the underlying asset in the structure. Thus, a bank holding a Re.1 investment in a structure, which invests in 20 assets each with a value of Rs.5, must assign an exposure of Re 0.05 to each of the counterparties. An exposure to counterparty must be added to any other direct or indirect exposures the bank has to that counterparty.

8.10 Any structure with different seniority levels among investors (eg securitisation vehicles) - When the LTA (in terms of paragraphs above) is required for an investment in a structure with different levels of seniority, the exposure value to a counterparty should be measured for each tranche within the structure, assuming a pro rata distribution of losses amongst investors in a single tranche. To compute the exposure value to the underlying asset, a bank must:

- i. first, consider the lower of the value of the tranche in which the bank invests and the nominal value of each underlying asset included in the underlying portfolio of assets
- ii. second, apply the pro rata share of the bank's investment in the tranche to the value determined in the first step above.

8.11 In view of the practical difficulties involved in using the 'Look through Approach (LTA) for deciding relevant counterparties, it has been decided to allow some discretion in this regard to the banks at the outset. Therefore, while the banks may use the 'Look through Approach (LTA) for deciding relevant counterparties on the best effort basis and as per their Board approved policy, for the first two years, this provision will not mandatorily apply on immediate basis

9. Identification of additional risks

9.1 While taking exposures to structures, banks must identify such third parties which may constitute an additional risk factor and which are inherent in the structure itself rather than in the underlying assets. Such a third party could be a risk factor for more than one structure that a bank invests in. Examples of roles played by third parties include originator, fund manager, liquidity provider and credit protection provider.

9.2 The identification of an additional risk factor has two implications.

- i. The first implication is that banks must connect their investments in those structures with a common risk factor to form a group of connected counterparties. In such cases, the manager would be regarded as a distinct counterparty so that the sum of a bank's investments in all of the funds managed by this manager would be subject to the LE limit, with the exposure value being the total value of the different investments. But in other cases, the identity of the manager may not comprise an additional risk factor, e.g., if the legal framework governing the regulation of particular funds requires separation between the legal entity that manages the fund and the legal entity that has custody of the fund's assets. In the case of structured finance products, the liquidity provider or sponsor of short-term programmes (asset-backed commercial paper – ABCP – conduits and structured investment vehicles – SIVs) may warrant consideration as an additional risk factor (with

the exposure value being the amount invested). Similarly, in synthetic deals, the protection providers (sellers of protection by means of CDS/guarantees) may be an additional source of risk and a common factor for interconnecting different structures (in this case, the exposure value would correspond to the percentage value of the underlying portfolio).

ii. The second implication is that banks may add their investments in a set of structures associated with a third party that constitutes a common risk factor to other exposures (such as a loan) it has to that third party. Whether the exposures to such structures must be added to any other exposures to the third party would again depend on a case-by-case consideration of the specific features of the structure and on the role of the third party. In the example of the fund manager, adding together the exposures may not be necessary because potentially fraudulent behaviour may not necessarily affect the repayment of a loan. The assessment may be different where the risk to the value of investments underlying the structures arises in the event of a third-party default. For example, in the case of a credit protection provider, the source of the additional risk for the bank investing in a structure is the default of the credit protection provider. The bank must add the investment in the structure to the direct exposures to the credit protection provider since both exposures might crystallise into losses in the event that the protection provider defaults (ignoring the covered part of the exposures may lead to the undesirable situation of a high concentration risk exposure to issuers of collateral or providers of credit protection).

9.3 It is conceivable that a bank may consider multiple third parties to be potential drivers of additional risk. In this case, the bank must assign the exposure resulting from the investment in the relevant structures to each of the third parties.

9.4 The requirement set out in paragraph 8.8 to recognise a structural risk inherent in the structure instead of the risk stemming from the underlying exposures is independent of whatever the general assessment of additional risks concludes.

10. Exposures to and among certain specific counterparties

10.1 Exposures to Central Counterparties

10.1 The appropriateness of setting out a LE limit for banks' exposures to qualifying central counterparties (QCCPs¹⁶) is subject to an observation period set by BCBS till 2016. In the meantime, banks' exposures to QCCPs related to clearing activities will be exempted from the LE framework.

10.2 The definition of QCCP for the purpose of this Framework is the same as that used for risk-based capital requirement purposes. A QCCP is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

10.3 In the case of non-QCCPs, banks must measure their exposure as a sum of both the clearing exposures described in paragraph 10.5 and the non-clearing exposures described in paragraph 10.7, and the same will be subject to the general LE limit of 25 percent of the eligible capital base.

10.4 The concept of connected counterparties described in paragraph 6 does not apply in the context of exposures to CCPs that are specifically related to clearing activities.

10.5 Calculation of exposures related to clearing activities: Banks must identify exposures to a CCP related to clearing activities and sum together these exposures. Exposures related to clearing activities are listed in the table below together with the exposure value to be used:

Trade exposures	The exposure value of trade exposures must be calculated using the exposure measures prescribed in
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¹⁶Please refer to circular [DBOD.No.BP.BC.82/21.06.217/2013-14 dated January 7, 2014](#) on Banks' Exposure to Central Counterparties (CCPs) - Interim Arrangements'

	other parts of this framework for the respective type of exposures.
Segregated initial margin	The exposure value is 0 ¹⁷ .
Non-segregated initial margin	The exposure value is the nominal amount of initial margin posted.
Pre-funded default fund contributions	Nominal amount of the funded contribution ¹⁸
Unfunded default fund contributions	The exposure value is 0

10.6 Regarding exposures subject to clearing services (the bank acting as a clearing member or being a client of a clearing member), the bank must determine the counterparty to which exposures must be assigned by applying the provisions of the risk-based capital requirements.

10.7 **Other exposures:** Other types of exposures that are not directly related to clearing services provided by the CCP, such as equity stake¹⁹, funding facilities, credit facilities, guarantees etc., must be measured according to the rules set out in this framework, as for any other type of counterparty. These exposures will be added together and be subjected to the LE limit.

10. II. Exposures to NBFCs

10.8 Exposure Ceilings proposed under LE Framework

(i) Exposures to NBFCs: Banks' exposures to a single NBFC will be restricted to 15 percent of their eligible capital base .However, based on the risk perception, more stringent exposure limits in respect of certain categories of NBFCs may be considered.

¹⁷When the initial margin (IM) posted is bankruptcy-remote from the CCP – in the sense that it is segregated from the CCP's own accounts, eg when the IM is held by a third-party custodian – this amount cannot be lost by the bank if the CCP defaults; therefore, the IM posted by the bank can be exempted from the large exposure limit.

¹⁸The exposure value for pre-funded default fund contributions may need to be revised if applied to QCCPs and not only to non QCCPs.—not clear..if can elaborate

¹⁹If equity stakes in a CCP are deducted from the capital on which the large exposure limit is based, these must not be included as exposure to the CCP.

(ii) Banks' exposures to a group of connected NBFCs or groups of connected counterparties having NBFCs in the group will be restricted to 25 percent of their Tier I Capital.

10.9 The above exposure limits are subject to all other instructions²⁰

10.III Large exposures rules for global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs)

10.10 The LE limit applied to a G-SIB's exposure to another G-SIB is set at 15 percent of the eligible capital base. The limit applies to G-SIBs as identified by the Basel Committee and published annually by the FSB. At present, no Indian bank has been classified as G-SIB. When a bank becomes a G-SIB, it must apply the 15 percent exposure limit to another G-SIB within 12 months from the date of becoming G-SIB, which is the same time frame within which a bank that has become a G-SIB would need to satisfy its higher loss absorbency capital requirement.

10.11 The LE limit of a non-G-SIB bank in India (including the branch of a foreign bank) to a G-SIB and a non-bank G-SIFI will be 20 percent of the eligible capital base.

10.12 The Reserve Bank has issued the [Framework for dealing with Domestic Systemically Important Banks \(D-SIBs\) on July 22, 2014](#), wherein it was indicated that the names of the banks classified as D-SIBs will be disclosed in the month of August every year starting from 2015. Accordingly, RBI had notified State Bank of India and ICICI Bank as D-SIBs vide [Press Release dated August 31, 2015](#). The LE limit for a D-SIB to another D-SIB and a non-D-SIB to a D-SIB will be capped at 20 percent of their eligible capital base.

10.13 However, as mentioned in para 8 .2 of this draft guidelines, the BCBS is currently reviewing the provisions of interbank exposures. Further, no Indian bank has been classified as G-SIB. Accordingly, the Reserve Bank will review the Large Exposure limits for non-G-SIB banks in India to a G-SIB and a non-bank G-SIFI as also for a D-SIB to another D-SIB and a non-D-SIB to a D-SIB, one year after issue of the final guidelines on the Large Exposure Framework. The existing market

²⁰ As contained in Master Circular – Exposure Norms / Chapter ---- of Master Direction - Prudential Norms on Banks' Exposures

specific limits on 'Call Money and Notice Money Borrowing and Lending' and 'Interbank Liabilities' will continue to be applicable till then.

11. Implementation date and transitional arrangements

All aspects of the LE Framework must be implemented in full by March 31, 2019 and the extant exposure norms applicable to single/group of connected counterparties will no longer be applicable from that date²¹. Banks must gradually adjust their exposures so as to comply with the LE limit with respect to their eligible capital base by that date. Accordingly, prior to this date, banks should avoid taking any additional exposure/reduce exposure in cases where their exposure is at or above the exposure limit prescribed under this Framework.

12. The Reserve Bank will review the entire large exposure framework after one year after the issue of the final guidelines on the large exposures framework.

²¹The LE Framework is applicable to a bank's counterparties and does not address other types of concentration risks such as sectoral exposures. As such, the extant instructions contained in the RBI Master Circular – Exposure norms / Master Direction - Prudential Norms on Banks' Exposures, will continue to be applicable, except to the extent superseded by the provisions of this Framework.

Appendix 1

Return on Large Exposures

Name of the Bank	
Return for the Month	
Eligible Capital base (Tier I)	(Rs. crore)

A. Bank's 20 Largest Exposures to counterparties (single as well as group of connected counterparties) irrespective of their values relative to bank's eligible capital base

SI No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
3.				
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18.				
19.				
20.				

B. Bank's exposures (measured without effect of CRM) with values equal to or above 10% of Tier I Capital

SI No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
--				
n				

C. Bank's exempted exposures with values equal to or above 10% of Tier I Capital

SI No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected Counterparties	Exposure Amount	Exposure as % of Tier I Capital
1.				
2.				
--				
n.				