Annex

Amendments to the circular
DBOD.No.BP.BC.90 / 20.06.001 / 2006-07 dated April 27, 2007

Sl. No	**Ref in our circular dt. 27.4.'07**	**Existing Text / Table / Reference** (Deletions from the existing text have been indicated in bold italics)	**Amended Text / Table** (Additions to the existing text have been indicated in bold italics)
1.	Page No.11 Para 4.3.5	Any other type of instrument generally notified by the Reserve Bank from time to time for inclusion in Tier 2 capital.	***4.3.5 <u>Innovative Perpetual Debt Instruments (IPDI)</u>*** ***IPDI in excess of 15 per cent of Tier 1 to be included in Tier 2 {cf, Annexure I, Para 1(ii)}*** ***<u>Note:</u>*** The existing paragraphs Nos. 4.3.5, 4.3.6 and 4.3.7 will stand re-numbered as 4.3.6, 4.3.7 and 4.3.8 respectively.
2.	Page No.14 Para 4.4.8	A bank's aggregate investment in all types of instruments listed at paragraph 4.4.9 below, excluding those deducted in terms of paragraph 4.4.6, which are issued by other banks / FIs / NBFCs / Primary Dealers and are eligible for capital status for the investee entity, should not exceed 10 per cent of the investing bank's capital funds (Tier 1 plus Tier 2 capital, after above adjustments). Any investment in excess of this limit shall be deducted at 50 per cent from Tier 1 and 50 per cent from Tier 2 capital. Investments in equity or instruments eligible for capital status issued by ***banks*** / FIs / NBFCs / Primary Dealers which are not deducted from capital funds will attract a risk weight of 100 per cent or the risk weight as applicable to the ratings assigned to the relevant instruments, whichever is higher.	A bank's aggregate investment in all types of instruments, eligible for capital status of investee banks / FIs / NBFCs / PDs as listed in paragraph 4.4.9 below, excluding those deducted in terms of paragraph 4.4.6, should not exceed 10 per cent of the investing bank's capital funds (Tier 1 plus Tier 2, after adjustments). Any investment in excess of this limit shall be deducted at 50 per cent from Tier 1 and 50 per cent from Tier 2 capital. Investments in equity or instruments eligible for capital status issued by FIs / NBFCs / Primary Dealers which are, within the aforesaid ceiling of 10 per cent and thus, are not deducted from capital funds will attract a risk weight of 100 per cent or the risk weight as applicable to the ratings assigned to the relevant instruments, whichever is higher. <u>(The paragraph has been slightly</u>

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<td>rephrased as above for greater clarity).
As regards the treatment of investments in equity and other capital-eligible instruments of scheduled banks, within the aforesaid ceiling of 10 per cent, please see paragraph 5.6.1.

Further, in the case of non-scheduled banks, where CRAR / net worth has become negative, the investments in the capital-eligible instruments even within the aforesaid 10 per cent limit shall be fully deducted from capital, as per para 5.6.1.</td>
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<td>3.</td>
<td>Page No.15

Para 5.2.2</td>
<td>***'Investment in State Government securities will attract zero risk weight. State Government guaranteed claims will attract 20 per cent risk weight'.***</td>
<td>***'The Direct loan / credit / overdraft exposure, if any, of banks to the State Governments and the investment in State Government securities will attract zero risk weight. State Government guaranteed claims will attract 20 per cent risk weight'.***</td>
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<td>4.</td>
<td>Page Nos. 16 & 22
Tables 3 & 7</td>
<td>
<table>
<tr><td>S&P/ Fitch Ratings</td><td>AAA To AA</td><td>A</td><td>BBB</td><td>Below BB</td><td>Unrated</td></tr>
<tr><td>Moody's ratings</td><td>Aaa to Aa</td><td>A</td><td>Baa to Ba</td><td>Below Ba</td><td>Unrated</td></tr>
<tr><td>RW (%)</td><td>20</td><td>50</td><td>100</td><td>150</td><td>100</td></tr>
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The rating symbol in the first row at the fourth column is revised from 'BBB' to 'BBB to BB'.
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<td>5.</td>
<td>Page No.18
Para 5.6.1</td>
<td>Please refer to the existing paragraph 5.6.1.
(Provisions relating to claims on banks)</td>
<td>For revised text of paragraph 5.6.1, please see **Appendix - 1**</td>
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<td>6.</td>
<td>Page No. 21
Table – 6
Part B</td>
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<table>
<tr><th colspan="5">Table 6 : Part B - Short Term Claims on Corporate - Risk Weights</th></tr>
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<tr><th>CARE</th><th>CRISIL</th><th>Fitch</th><th>ICRA</th></tr>
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<tr><td>PR1</td><td>P1</td><td>F1</td><td>A1</td><td>30 %</td></tr>
<tr><td>PR2</td><td>P2</td><td>F2</td><td>A2</td><td>50 %</td></tr>
<tr><td>PR3</td><td>P 3</td><td>F3</td><td>A3</td><td>100 %</td></tr>
<tr><td>PR4 & PR5</td><td>P 4 & P5</td><td>B, C, D</td><td>A4 / A5</td><td>150 %</td></tr>
<tr><td>Unrated</td><td>Unrated</td><td>Unrated</td><td>Unrated</td><td>100 %</td></tr>
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<td>7.</td>
<td>Page No. 28
Para 5.13.3</td>
<td>Consumer credit, including personal loans and credit card receivables will attract a higher risk weight of 125 % or a higher risk weight (more than 125 %) as warranted by the external rating (or the lack of it) of the counterparty. However, loans up to Rs. 1 lakh against gold and silver ornaments will attract a concessional risk weight of 50 per cent.</td>
<td>Consumer credit, including personal loans and credit card receivables but excluding educational loans, will attract a higher risk weight of 125 per cent or higher, if warranted by the external rating (or, the lack of it) of the counterparty. As gold and gold jewellery are eligible financial collateral, the counterparty exposure in respect of personal loans secured by gold and gold jewellery will be worked out under the comprehensive approach as per paragraph 7.3. The ‘exposure value after risk mitigation’ shall attract the risk weight of 125 per cent.</td>
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<td>8.</td>
<td>Page No. 33
Para 5.15.2 (v)
2nd bullet</td>
<td>‘Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank’</td>
<td>‘Rediscounting of documentary bills discounted by other banks and bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank’.</td>
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9.	Page No. 57 Para 7.3.4 (i)	In the comprehensive approach, when taking collateral, banks will need to calculate their adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the effects of that collateral. Banks are required to adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, occasioned by market movements. These adjustments are referred to as 'haircuts'. The application of haircuts will produce volatility adjusted amounts for both exposure and collateral. The volatility adjusted amount for the exposure will be higher than the exposure and the volatility adjusted amount for the collateral will be lower than the collateral, unless either side of the transaction is cash. In other words, the 'haircut' for the exposure will be a premium factor and the 'haircut' for the collateral will be a discount factor.	In the comprehensive approach, when taking collateral, banks will need to calculate their adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the effects of that collateral. Banks are required to adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, occasioned by market movements. These adjustments are referred to as 'haircuts'. The application of haircuts will produce volatility adjusted amounts for both exposure and collateral. The volatility adjusted amount for the exposure will be higher than the exposure and the volatility adjusted amount for the collateral will be lower than the collateral, unless either side of the transaction is cash. In other words, the 'haircut' for the exposure will be a premium factor and the 'haircut' for the collateral will be a discount factor. ***It may be noted that the purpose underlying the application of haircut is to capture the market-related volatility inherent in the value of exposures as well as of the eligible financial collaterals. Since the value of credit exposures acquired by the banks in the course of their banking operations, would not be subject to market volatility, (since the loan disbursal / investment would be a “cash” transaction) though the value of eligible financial collateral would be, the haircut stipulated***

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<td>in Table-14 would apply in respect of credit transactions only to the eligible collateral but not to the credit exposure of the bank.

On the other hand, exposures of banks, arising out of repo-style transactions would require upward adjustment for volatility, as the value of security sold/lent/pledged in the repo transaction, would be subject to market volatility. Hence, such exposures shall attract haircut.</td>
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<td>10.</td>
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Table – 13</td>
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<td>11.</td>
<td>Page No. 59
Para 7.3.5 (viii) & (ix)</td>
<td>(viii) Equities (including convertible bonds) that are listed on a recognised stock exchange and are included in the following indices : 'BSESENSEX' and 'BSE-200' of the Bombay Stock Exchange; 'S&P CNX NIFTY' and 'Junior NIFTY' of the National Stock Exchange and the main index of any other recognised stock exchange, in the jurisdiction of bank's operation.</td>
<td>Existing paragraph No 7.3.5 (ix) is renumbered as 7.3.5 (viii).</td>
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12.	Page No.60 Para 7.3.7	Existing paragraph contains 11 sub-paragraphs { (i.e [7.3.7 (i) to (xi)] }	**The existing paragraph 7.3.7 is replaced with the text provided in the Appendix – 2.**
13.	Page No. 63	NIL	**New paragraph No.7.3.8 entitled** 'Capital Adequacy framework for Repo- / Reverse Repo –style Transactions', is inserted: For the text of paragraph 7.3.8, please refer to **Appendix – 3**.
14.	Page No. 68 Para 7.6.1	For the purposes of calculating risk-weighted assets, a maturity mismatch occurs when the residual maturity of a collateral is less than that of the underlying exposure. Where there is a maturity mismatch and the CRM has an original maturity of less than one year, the CRM is not recognised for capital purposes. In other cases where there is a maturity mismatch, partial recognition is given to the CRM for regulatory capital purposes as detailed below in paragraphs 7.6.2 to 7.6.4.	For the purposes of calculating risk-weighted assets, a maturity mismatch occurs when the residual maturity of a collateral is less than that of the underlying exposure. Where there is a maturity mismatch and the CRM has an original maturity of less than one year, the CRM is not recognised for capital purposes. In other cases where there is a maturity mismatch, partial recognition is given to the CRM for regulatory capital purposes as detailed below in paragraphs 7.6.2 to 7.6.4. **‘In case of loans collateralised by the bank’s own deposits, even if the tenor of such deposits is less than three months or deposits have maturity mismatch vis-à-vis the tenor of the loan, the provisions of paragraph 7.6.1 regarding derecognition of collateral would not be attracted provided an explicit consent of the depositor has been obtained from the depositor (i.e, borrower) for adjusting the maturity proceeds of such deposits against the outstanding loan or for renewal of such deposits till the full repayment of the underlying loan.**

15.	Page Nos. 70 to 75	***To begin with, capital charge for market risks is applicable to banks on a global basis. At a later stage, this would be extended to all groups where the controlling entity is a bank.***	Paragraph 8.2.2 is deleted and the paragraph 8.2.3 and 8.2.4 are renumbered as 8.2.2 and 8.2.3 respectively.
16.	Page Nos. 71 to 75	Please refer to the existing paragraphs 8.3.1 to 8.3.6. (Measurement of capital charge for interest rate risk)	For text of revised paragraphs, please see **Appendix – 4.**
17.	Page No. 79 Para 8.4.1	Minimum capital requirement to cover the risk of holding or taking positions in equities in the trading book is set out below. This is applied to all instruments that exhibit market behaviour similar to equities but not to nonconvertible preference shares (which are covered by the interest rate risk requirements described earlier). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example : units of mutual funds, and commitments to buy or sell equity.	***The capital charge for equities would apply on their current market value in bank's trading book.*** Minimum capital requirement to cover the risk of holding or taking positions in equities in the trading book is set out below. This is applied to all instruments that exhibit market behaviour similar to equities but not to nonconvertible preference shares (which are covered by the interest rate risk requirements described earlier). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example : units of mutual funds, and commitments to buy or sell equity
18.	Annex - 4 Page No.118	Please refer to page 118 of the circular (Illustrations on credit risk mitigation)	For revised text, please refer to the **Appendix – 5**.

19. Miscellaneous amendments:

A) The caption for the Table No.8 (page No.32) may be read as **'Credit conversion factors – Non-market related off-balance sheet items'**, instead of '**Credit conversion factors – Off-balance sheet items'**.

B**)** The type of the instruments referred to at Sl. No.7 of Table No.8 in page No.33 may be read as **'Note issuance facilities and revolving / non-revolving underwriting facilities'** instead of 'Note **issuance facilities and revolving underwriting facilities'**

C) The word **'realised'** in Page No.40 at paragraph 5.16.2 may be read as **'recognised'.**

D) The description **'Risk weight'** appearing in the first column 2nd row in Table Nos. 10 and 11 on page No.43 may be read as **'Risk weight for banks other than the originators'.**

E) The references to the **'Table – 12 / 13' in** the following portions of the circular dated April 27, 2007 may please be changed to read as:

a) Page No.77 - paragraph 8.3..8 (ii) and (iii) as **'Table – 17'**
b) Page No.77 - paragraph 8.3..8 (v) as **'Table – 18'**
b) Annex 5 Page No.121 para 2(a) - last sentence as **'Table – 17'**
c) Annex 5 Page No.126 - Para B II (a) 5 (2nd line) as **'Table – 17'**
d) Annex 5 Page No.129 – Para 9 (2nd line) as **'Table – 17'**

F) The words **'of paragraph 8 of this circular'** may please be added to the following:

a) Annex 5 Page No.123 Paragraph B 2 – In the 7th line, at the end of 2nd paragraph
b) Annex 5 Page No.126 Para B II (a) 4 – at the end of 2nd line.

Appendix – 1
(cf. Sl. No.5 of the Annex)

The paragraph 5.6.1 of the circular DBOD.No.BP.BC.90/20.01.006/2006-07 dated April 27, 2007 may be substituted by the following:

Quote:

5.6 Claims on banks

5.6.1. The claims on banks incorporated in India and the branches of foreign banks in India, *other than those referred to in para 4.4.6 and para 4.4.8 above, which are deducted from capital*, will be risk weighted as under:

Table 4: Claims on banks incorporated in India and foreign bank branches in India

Level of CRAR (in per cent) of the investee bank (where available)	Risk Weight			
	All Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-Operative Banks)		All Non-Scheduled Banks ((Commercial, Regional Rural Banks, Local Area Banks and Co-Operative Banks)	
	Investments within 10 % limit referred to in para 4.4.8 above (in per cent)	All other claims (in per cent)	Investments within 10 % limit referred to in para 4.4.8 above (in per cent)	All Other Claims (in per cent)
1	2	3	4	5
9 and above	Higher of 100 % or the risk weight as per the rating	20	Higher of 100 per cent or the risk weight as per the rating	100
6 to <9	150	50	250	150
3 to <6	250	100	350	250
0 to <3	350	150	625	350
Negative	625	625	Full deduction	625

Notes

i) In the case of banks where no capital adequacy norms have been prescribed by the RBI, the lending / investing bank may calculate the CRAR of the cooperative bank concerned, notionally, by obtaining necessary information from the investee bank, using the capital adequacy norms as applicable to the commercial banks. In case, it is not found feasible to compute CRAR on such notional basis, the risk weight of 350 or 625 per cent, as per the risk perception of the investing bank, should be applied uniformly to the investing bank's entire exposure.

ii) In case of banks where capital adequacy norms are not applicable at present, the matter of investments in their capital-eligible instruments would not arise for now. However, column No. 2 and 4 of the Table above will become applicable to them, if in future they issue any capital instruments where other banks are eligible to invest.

Unquote.

Appendix – 2
(cf. Sl. No.12 of the Annex)

The paragraph 7.3.7 in the circular DBOD.No.BP.BC.90/20.01.006/2006-07 dated April 27, 2007 may be substituted by the following:

<u>Quote:</u>

7.3.7 Haircuts

(i) In principle, banks have two ways of calculating the haircuts: (i) standard supervisory haircuts, using parameters set by the Basel Committee, and (ii) own-estimate haircuts, using banks' own internal estimates of market price volatility. Banks in India shall use only the standard supervisory haircuts for both the exposure as well as the collateral.

(ii) The Standard Supervisory Haircuts (assuming daily mark-to-market, daily re-margining and a 10 business-day holding period),[15] expressed as percentages, would be as follows:

Table – 14: Standard Supervisory Haircuts for Sovereign and other securities which constitute Exposure and Collateral

		Issue Rating for Debt securities	Residual Maturity (in years)	Haircut (in percentage)
A	**Securities issued / guaranteed by the Government of India and issued by the State Governments (Sovereign securities)**			
	i	Rating not applicable – as Government securities are not currently rated in India	= 1 year	0.5
			> 1 year and < or = 5 years	2
			> 5 years	4
B	**Domestic debt securities other than those indicated at Item No.A above including the securities guaranteed by Indian State Governments**			
	ii	AAA to AA PR1/P1/F1/A1	= 1 year	1
			> 1 year and < or = 5 years	4
			> 5 years	8
	iii	A to BBB PR2 / P2 / F2 /A2; PR3 /P3 / F3 / A3 and unrated bank securities as specified in paragraph 7.3.5 (vii) of the circular	= 1 year	2
			> 1 year and < or = 5 years	6
			> 5 years	12
	iv	Units of Mutual Funds		Highest haircut applicable to any of the above securities, in which the eligible mutual fund {cf. para 7.3.5 (viii)} can invest
C	**Cash in the same currency**			0

[15] Holding period will be the time normally required by the bank to realise the value of collateral.

iii) The ratings indicated in Table – 14 represent the ratings assigned by the domestic rating agencies. In the case of exposures toward debt securities issued by foreign Central Governments and foreign corporates, the haircut may be based on ratings of the international rating agencies, as indicated below:

Table – 15 : Standard Supervisory Haircut for Exposures and Collaterals which are obligations of foreign central sovereigns/foreign corporates

Issue rating for debt securities as assigned by international rating agencies	Residual Maturity	Sovereigns	Other Issues
AAA to AA / A-1	= 1 year	0.5	1
	> 1 year and < or = 5 years	2	4
	> 5 years	4	8
A to BBB / A-2 / A-3 / P-3 and Unrated Bank Securities	= 1 year	1	2
	> 1 year and < or = 5 years	3	6
	> 5 years	6	12

iv) Sovereign will include Reserve Bank of India, DICGC and CGTSI, which are eligible for zero per cent risk weight.

v) Banks may apply a zero haircut for eligible collateral where it is a National Savings Certificate, Kisan Vikas Patras, surrender value of insurance policies and banks' own deposits.

vi) The standard supervisory haircut for currency risk where exposure and collateral are denominated in different currencies is eight per cent (also based on a 10-business day holding period and daily mark-to-market)

vii) For transactions in which the banks' exposures are unrated or bank lends non-eligible instruments (i.e, non-investment grade corporate securities), the haircut to be applied on a exposure should be 25 per cent. (Since, at present, the repos are allowed only in the case of Government securities, the banks are not likely to have any exposure which will attract the provisions of this clause. However, this would be relevant, if in future, repos/security lending transactions are permitted in the case of unrated corporate securities).

viii) Where the collateral is a basket of assets, the haircut on the basket will be,

$$H = \sum_{i} a_i H_i$$

where a_i is the weight of the asset (as measured by the amount/value of the asset in units of currency) in the basket and H_i, the haircut applicable to that asset.

ix) *Adjustment for different holding periods*

For some transactions, depending on the nature and frequency of the revaluation and remargining provisions, different holding periods (other than 10 business-days) are appropriate. The framework for collateral haircuts distinguishes between repo-style transactions (i.e. repo/reverse repos and securities lending/borrowing), "other capital-market-driven transactions" (i.e. OTC derivatives transactions and margin lending) and secured lending. In capital-market-driven transactions and repo-style transactions, the documentation contains remargining clauses; in secured lending transactions, it generally does not. In view of different holding periods, in the case of these transactions, the minimum holding period shall be taken as indicated below:

Transaction type	Minimum holding period	Condition
Repo-style transaction	five business days	daily remargining
Other capital market transactions	ten business days	daily remargining
Secured lending	twenty business days	daily revaluation

The haircut for the transactions with other than 10 business-days minimum holding period, as indicated above, will have to be adjusted by scaling up/down the haircut for 10 business – days indicated in the Table-14, as per the formula given in paragraph 7.3.7 (xi) below.

x) Adjustment for non-daily mark-to-market or remargining:

In case a transaction has margining frequency different from daily margining assumed, the applicable haircut for the transaction will also need to be adjusted by using the formula given in paragraph 7.3.7 (xi) below.

xi) *Formula for adjustment for different holding periods and/or non-daily mark – to–market or remargining.*

Adjustment for the variation in holding period and margining / mark – to – market, as indicated in paragraph (ix) and (x) above will be done as per the following formula:

$$H = H_{10}\sqrt{\frac{N_R + (T_M - 1)}{10}}$$

where

H = haircut;

H_{10} = 10 – business-day standard supervisory haircut for instrument

N_R = actual number of business days between remargining for capital market transactions or revaluation for secured transactions.

T_M = minimum holding period for the type of transaction

Unquote.

Appendix – 3
(cf. Item No.13 of the Annex)

The following new paragraph 7.3.8 may be added:

Quote:

7.3.8 Capital Adequacy Framework for Repo-/Reverse Repo-style transactions.

The repo-style transactions also attract capital charge for Counterparty credit risk (CCR), in addition to the credit risk and market risk. The CCR is defined as the risk of default by the counterparty in a repo-style transaction, resulting in non-delivery of the security lent/pledged/sold or non-repayment of the cash.

A. Treatment in the books of the borrower of funds

i) Where a bank has borrowed funds by selling / lending or posting, as collateral, of securities, the 'Exposure' will be an off-balance sheet exposure equal to the 'market value' of the securities sold/lent as scaled up after applying appropriate haircut. For the purpose, the haircut as per Table 14 would be used as the basis which should be applied by using the formula in paragraph 7.3.7 (xi), to reflect minimum (prescribed) holding period of five business-days for repo-style transactions and the variations, if any, in the frequency of re-margining, from the daily margining assumed for the standard supervisory haircut. The 'off-balance sheet exposure' will be converted into 'on-balance sheet' equivalent by applying a credit conversion factor of 100 per cent., as per item 5 in Table 8 of the circular.

ii) The amount of money received will be treated as collateral for the securities lent/sold/pledged. Since the collateral is cash, the haircut for it would be zero.

iii) The credit equivalent amount arrived at (i) above, net of amount of cash collateral, will attract a risk weight as applicable to the counterparty.

iv) As the securities will come back to the books of the borrowing bank after the repo period, it will continue to maintain the capital for the credit risk in the securities in the cases where the securities involved in repo are held under HTM category, and capital for market risk in cases where the securities are held under AFS/HFT categories. The capital change for credit risk / specific risk would be determined according to the credit rating of the issuer of the security. In the case of Government securities, the capital charge for credit / specific risk will be 'zero'.

<u>Treatment in the books of the lender of funds</u>

i) The amount lent will be treated as on-balance sheet/funded exposure on the counter party, collateralised by the securities accepted under the repo.

ii) The exposure, being cash, will receive a zero haircut.

iii) The collateral will be adjusted downwards/marked down as per applicable haircut.

iv) The amount of exposure reduced by the adjusted amount of collateral, will receive a risk weight as applicable to the counterparty, as it is an on- balance sheet exposure.

v) The lending bank will not maintain any capital charge for the security received by it as collateral during the repo period, since such collateral does not enter its balance sheet but is only held as a bailee.

(For illustration, please see Part B of the Appendix – 5 of this circular)

Unquote.

Appendix – 4
(cf. Sl. No.16 of the Annex)

The existing paragraph Nos. 8.3.1 to 8.3.6 in the circular DBOD.No.BP.BC.90/20.01.006/2006-07 dated April 27, 2007 may be substituted by the following:

Quote:

Section B

8.3 Measurement of capital charge for interest rate risk

8.3.1 This section describes the framework for measuring the risk of holding or taking positions in debt securities and other interest rate related instruments in the trading book.

8.3.2 The capital charge for interest rate related instruments would apply to current market value of these items in bank's trading book. Since banks are required to maintain capital for market risks on an ongoing basis, they are required to mark to market their trading positions on a daily basis. The current market value will be determined as per extant RBI guidelines on valuation of investments.

8.3.3 The minimum capital requirement is expressed in terms of two separately calculated charges, (i) "**specific risk**" charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer, both for short (short position is not allowed in India except in derivatives) and long positions, and (ii) "**general market risk**" charge towards interest rate risk in the portfolio, where long and short positions (which is not allowed in India except in derivatives) in different securities or instruments can be offset.

8.3.4 For the debt securities held under AFS category, in view of the possible longer holding period and attendant higher specific risk, the banks shall hold total capital charge for market risk equal to greater of (a) or (b) below:

a) **Specific risk capital charge, computed notionally for the AFS securities treating them as held under HFT category (as computed according to Table 16: Part A/C/E, as applicable) plus the General Market Risk Capital Charge.**

b) **Alternative total capital charge for the AFS category computed notionally treating them as held in the banking book (as computed in accordance with table 16: Part B/D/F, as applicable)**

Specific Risk

8.3.5 The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. The specific risk charges for various kinds of exposures would be as applied as detailed below:

S.No.	Nature of debt securities / issuer	Table to be followed
a.	Central, State and Foreign Central Governments' bonds: (i) Held in HFT category (ii) Held in AFS category	 Table 16 – Part A Table 16 – Par B
b.	Banks' Bonds: (i) Held in HFT category (ii) Held in AFS category	 Table 16 – Part C Table 16 – Par D
c.	Corporate Bonds and securitised debt: (i) Held in HFT category (ii) Held in AFS category	 Table 16 – Par E Table 16 – Part F

Table 16 - Part A

Specific Risk Capital Charge for Sovereign securities issued by Indian and foreign sovereigns – Held by banks under HFT Category

Sr. No.	Nature of Investment	Residual Maturity	Specific risk capital (as % of exposure)
A.	**Indian Central Government and State Governments**		
1.	Investment in Central and State Government Securities	All	0.00
2.	Investments in other approved securities guaranteed by Central Government	All	0.00
3.	Investments in other approved securities guaranteed by State Government	6 months or less	0.28
		More than 6 months and up to and including 24 months	1.13
		More than 24 months	1.80
4.	Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government	All	0.00
5.	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Government.	6 months or less	0.28
		More than 6 months and up to and including 24 months	1.13
		More than 24 months	1.80
B.	**Foreign Central Governments**		
1.	AAA to AA	All	0.00
2.	A to BBB	6 months or less	0.28
		More than 6 months and up to and including 24 months	1.13
		More than 24 months	1.80
3.	BB to B	All	9.00
4.	Below B	All	13.50
5.	Unrated	All	13.50

Table 16 - Part B

Alternative Total Capital Charge
for securities issued by Indian and foreign sovereigns
– Held by banks under AFS Category

Sr. No.	Nature of Investment	Residual Maturity	Specific risk capital (as % of exposure)
A.	**Indian Central Government and State Governments**		
1.	Investment in Central and State Government Securities	All	0.00
2.	Investments in other approved securities guaranteed by Central Government	All	0.00
3.	Investments in other approved securities guaranteed by State Government	All	1.80
4.	Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government	All	0.00
5.	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Government.	All	1.80
B.	**Foreign Central Governments**		
1.	AAA to AA	All	0.00
2.	A	All	1.80
3.	BBB	All	4.50
4.	BB to B	All	9.00
5.	Below B	All	13.50
	Unrated	All	13.50

Table 16 - Part C

Specific risk capital charge for bonds issued by banks – Held by banks under HFT category

Level of CRAR (where available) (in per cent)	Residual maturity	Specific risk capital charge			
		All Scheduled Banks (Commercial, Co-Operative and Regional Rural Banks)		All Non-Scheduled Banks (Commercial, Co-Operative and Regional Rural Banks)	
		Investments within 10 per cent limit referred to in para 4.4.8 (in per cent)	All other claims (in per cent)	Investments within 10 per cent limit referred to in para 4.4.8 (in per cent)	All other claims (in per cent)
1	2	3	4	5	6
9 and above	6 months or less	1.40	0.28	1.40	1.40
	Greater than 6 months and up to and including 24 months	5.65	1.13	5.65	5.65
	Exceeding 24 months	9.00	1.80	9.00	9.00
6 to <9	All maturities	13.50	4.50	22.50	13.50
3 to <6	All maturities	22.50	9.00	31.50	22.50
0 to <3	All maturities	31.50	13.50	56.25	31.50
Negative	All maturities	56.25	56.25	Full deduction	56.25

Notes

i) In the case of banks where no capital adequacy norms have been prescribed by the RBI, the lending / investing bank may calculate the CRAR of the bank concerned, notionally, by obtaining necessary information from the investee bank and using the capital adequacy norms as applicable to the commercial banks. In case, it is not found feasible to compute CRAR on such notional basis, the specific risk capital charge of 31.50 or 56.25 per cent, as per the risk perception of the investing bank, should be applied uniformly to the investing bank's entire exposure.

ii) In case of banks where capital adequacy norms are not applicable at present, the matter of investments in their capital-eligible instruments would not arise for now. However, column Nos. 3 and 5 of the Table above will become applicable to them, if in future they issue any capital instruments where other banks are eligible to invest.

Table 16 - Part D

Alternative Total Capital Charge
for bonds issued by banks – Held by banks under AFS category

(subject to the conditions stipulated in paragraph 8.3.4)

Level of CRAR (where available) (in per cent)	Alternative Total Capital Charge			
	All Scheduled Banks (Commercial, Co-operative and Regional Rural Banks)		All Non-Scheduled Banks (Commercial, Co-operative and Regional Rural Banks)	
	Investments within 10 % limit referred to in para 4.4.8 above (in per cent)	All other claims (in per cent)	Investments within 10 % limit referred to in para 4.4.8 above (in per cent)	All other claims (in per cent)
1	2	3	4	5
9 and above	9.00	1.80	9.00	9.00
6 to <9	13.50	4.50	22.50	13.50
3 to <6	22.50	9.00	31.50	22.50
0 to <3	31.50	13.50	50.00	31.50
Negative	56.25	56.25	Full deduction	56.25

Notes

i) In the case of banks where no capital adequacy norms have been prescribed by the RBI, the lending / investing bank may calculate the CRAR of the bank concerned, notionally, by obtaining necessary information from the investee bank and using the capital adequacy norms as applicable to the commercial banks. In case, it is not found feasible to compute CRAR on such notional basis, the specific risk capital charge of 31.50 or 56.25 per cent, as per the risk perception of the investing bank, should be applied uniformly to the investing bank's entire exposure.

ii) In case of banks where capital adequacy norms are not applicable at present, the matter of investments in their capital-eligible instruments would not arise for now. However, column Nos. 2 and 4 of the Table above will become applicable to them, if in future they issue any capital instruments where other banks are eligible to invest.

Table –16 Part – E

Specific Risk Capital Charge for Corporate Bonds and Securitised Debt Instruments (SDIs) (other than bank bonds) - Held by banks under HFT category

*Rating by the ECAI	Residual maturity	Specific risk capital charge		
		Corporate Bonds (in per cent)	Securitisation exposures (in per cent)	Securitisation exposures (SDIs) relating to Commercial real estate exposures (in per cent)
1	2	3	4	5
AAA to BBB	6 months or less	0.28	0.28	0.56
	Greater than 6 months and up to and including 24 months	1.14	1.14	2.28
	Exceeding 24 months	1.80	1.80	3.60
BB	All maturities	13.50	31.50	36.00
B and Below	All maturities	13.50	Deduction	Deduction
Unrated (if permitted)	All maturities	13.50 @	Deduction	Deduction

* These ratings indicate the ratings assigned by Indian rating agencies/ECAIs or foreign rating agencies. In the case of foreign ECAIs the ratings symbols used here correspond to Standard and Poor. The modifiers "+" or "-" have been subsumed with the main rating category.

@ In case the amount invested is less than the threshold limit prescribed in para 5.8.2, the capital charge will be 9 %.

Table 16 - Part F

Specific Risk Capital Charge
Corporate Bonds and Securitised Debt Instruments (SDIs)
(other than bank bonds) – Held by banks under AFS category

(subject to the conditions stipulated in para 8.3.4)

# Rating by the ECAIs	Total capital charge		
	Corporate Bonds (in per cent)	Securitisation exposures(SDIs) (in per cent)	Securitisation exposures (SDIs) relating to Commercial real estate exposures (in per cent)
1	**3**	**4**	**5**
AAA	1.80	1.80	4.50
AA	2.70	2.70	6.75
A	4.50	4.50	9.00
BBB	9.00	9.00	13.50
BB	13.50	31.50 (Deduction in the case of originator)	36.00 (Deduction in the case of originator)
B and below	13.50	Deduction	Deduction
Un-rated (if permitted)	13.50	Deduction	Deduction

These ratings indicate the ratings assigned by Indian rating agencies/ECAIs or foreign rating agencies. In the case of foreign ECAIs the ratings symbols used here correspond to Standard and Poor. The modifiers "+" or "-" have been subsumed with the main rating category.

8.3.6 Banks shall, in addition to computing the counterparty credit risk (CCR) charge for OTC derivatives as part of capital for credit risk as per the Standardised Approach covered in paragraph 5 above, compute the specific risk charge for OTC derivatives in the trading book as required in terms of **Annex 5** of the circular (dated April 27, 2007).

Unquote.

Appendix - 5
(cf. Sl. No.18 of Annex)

The existing "Annexure – 4" in the circular DBOD.No.BP.BC.90/20.01.006/ 2006-07 dated April 27, 2007 may be substituted by the following:

Quote:

"Annexure – 4"

Part – A

Illustrations on Credit Risk Mitigation (Cf. paragraph 7.3.6) (Loan- Exposures)

Calculation of Exposure amount for collateralised transactions:

$$E^* = Max \{ 0, [E \times (1 + H_e) - C \times (1 - H_c - H_{FX})] \}$$

Where,

E^* = Exposure value after risk mitigation
E = Current value of the exposure
H_e = Haircut appropriate to the exposure
C = Current value of the collateral received
H_c = Haircut appropriate to the collateral
H_{FX} = Haircut appropriate for currency mismatch between the collateral and exposure

Sl No	Particulars	Case I	Case 2	Case 3	Case 4	Case 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**Exposure**	**100**	**100**	**100**	**100**	**100**
2	Maturity of the exposure	2	3	6	3	3
3	Nature of the exposure	Corporate Loan	Corporate Loan	Corporate Loan	Corporate Loan	Corporate Loan
4	Currency	INR	INR	USD	INR	INR
5	Exposure in rupees	100	100	4000 (Row 1 x exch. rate##)	100	100
6	Rating of exposure	BB	A	BBB-	AA	B-
	Applicable Risk weight	150	50	100@	30	150
7	Haircut for exposure*	0	0	0	0	0
8	**Collateral**	100	100	4000	2	100
9	Currency	INR	INR	INR	USD	INR
10	**Collateral in Rs.**	**100**	**100**	**4000**	**80** (Row 1 x Exch. Rate)	**100**
11	Residual maturity of collateral (years)	2	3	6	3	5
12	Nature of collateral	Sovereign (GoI) Security	Bank Bonds	Corporate Bonds	Foreign Corporate Bonds	Units of Mutual Funds
13	Rating of Collateral	NA	Unrated	BBB	AAA (S & P)	AA
14	Haircut for collateral (%)	0.02	0.06	0.12	0.04	0.08

15	Haircut for currency mismatch (%) [cf. para 7.3.7 (vi) of circular]	0	0	0.08	0.08	0
16	Total Haircut on collateral [Row 10 x (row 14+15)]	2	6	800	9.6	8
17	Collateral after haircut (Row 10 - Row 16)	98	94	3200	70.4	92
18	**Net Exposure (Row 5 – Row 17)**	**2**	**6**	**800**	**29.6**	**8**
19	Risk weight (%)	150	50	100@	30	150
20	**RWA (Row 18 x 19)**	**3**	**3**	**800**	**8.88**	**12**

Exchange rate assumed to be 1 USD = Rs.40

Not applicable

@ In case of long term ratings, as per para 6.4.2 of the circular, where "+" or "-" notation is attached to the rating, the corresponding main rating category risk weight is to be used. Hence risk weight is 100 %.

(*) Haircut for exposure is taken as zero because the loans are not marked to market and hence are not volatile

Case 4 : Haircut applicable as per Table - 14

Case 5 : It is assumed that the Mutual Fund meets the criteria specified in paragraph 7.3.5(viii) and has investments in the securities all of which have residual maturity of more than five years are rated AA and above – which would attract a haircut of eight per cent in terms of Table 14 of the Circular.

Part - B

Illustrations on computation of capital charge for counterparty credit risk (CCR) – Repo Transactions

An illustration showing computation of total capital charge for a repo transaction comprising the capital charge for CCR and Credit/Market risk for the underlying security, under Basel-II is furnished below:

A. Particulars of a Repo Transaction:

Let us assume the following parameters of a hypothetical repo transaction:

Type of the Security	GOI security
Residual Maturity	5 years
Coupon	6 %
Current Market Value	Rs.1050
Cash borrowed	Rs.1000
Modified Duration of the security	4.5 years
Assumed frequency of margining	Daily
Haircut for security	2 % (Cf. Item A(i), Table 14 of the Circular)
Haircut on cash	Zero (Cf. Item C in Table 14 of the Circular)
Minimum holding period	5 business-days (Cf. para 7.3.7 (ix) of the Circular)
Change in yield for computing the capital charge for general market risk	0.7 % p.a. (Cf. Zone 3 in Table 17 of the Circular)

B. Computation of total capital charge comprising the capital charge for Counterparty Credit Risk (CCR) and Credit / Market risk for the underlying security

B.1 In the books of the borrower of funds (for the off-balance sheet exposure due to lending of the security under repo)

(In this case, the security lent is the exposure of the security lender while cash borrowed is the collateral)

Sl.No.	Items	Particulars	Amount (in Rs.)
A.	**Capital Charge for CCR**		
1.	Exposure	MV of the security	1050
2.	CCF for Exposure	100 %	
3.	On-Balance Sheet Credit Equivalent	1050 * 100 %	1050
4.	Haircut	1.4 % **@**	
5.	*Exposure adjusted for haircut as per Table 14 of the circular*	1050 * 1.014	1064.70
6.	Collateral for the security lent	Cash	1000
7.	Haircut for exposure	0 %	
8.	*Collateral adjusted for haircut*	1000 * 1.00	1000
9.	Net Exposure (5- 8)	1064.70 - 1000	64.70
10.	Risk weight (for a Scheduled CRAR-compliant bank)	20 %	
11.	Risk weighted assets for CCR (9 x 10)	**64.70 * 20 %**	**12.94**
12.	Capital Charge for CCR (11 x 9%)	12.94 * 0.09	1.16
B.	**Capital for Credit/ market Risk of the security**		
1.	Capital for credit risk (if the security is held under HTM)	Credit risk	Zero (Being Govt. security)
2.	Capital for market risk (if the security is held under AFS / HFT)	Specific Risk	Zero (Being Govt. security)
		General Market Risk (4.5 * 0.7 % * 1050) {Modified duration * assumed yield change (%) * market value of security}	33.07
Total capital required (for CCR + credit risk + specific risk + general market risk)			34.23

@ The supervisory haircut of 2 % has been scaled down using the formula indicated in paragraph 7.3.7 of the circular.

B.2 In the books of the lender of funds (for the on-balance sheet exposure due to lending of funds under repo)

(In this case, the cash lent is the exposure and the security borrowed is collateral)

Sl.No	Items	Particulars	Amount (in Rs.)
A.	**Capital Charge for CCR**		
1.	Exposure	Cash	1000
2.	Haircut for exposure	0 %	
3.	*Exposure adjusted for haircut as per Table 14 of the circular*	1000 * 1.00	1000
4.	Collateral for the cash lent	Market value of the security	1050
5.	Haircut for collateral	1.4 % @	
6.	*Collateral adjusted for haircut*	1050 * 0.986	1035.30
7.	Net Exposure (3 - 6)	Max { 1000 -1035.30}	0
8.	Risk weight (for a Scheduled CRAR-compliant bank)	20 %	
9.	Risk weighted assets for CCR (7 x 8)	**0 * 20 %**	**0**
10.	Capital Charge for CCR	0	**0**
B.	**Capital for Credit/ market Risk of the security**		
1.	Capital for credit risk (if the security is held under HTM)	Credit Risk	Not applicable, as it is maintained by the borrower of funds
2.	Capital for market risk (if the security is held under AFS/HFT)	Specific Risk	Not applicable, as it is maintained by the borrower of funds
		General Market Risk	Not applicable, as it is maintained by the borrower of funds

@ The supervisory haircut of 2 % has been scaled down using the formula indicated in paragraph 7.3.7 of the circular.

Unquote.