Annex 2

Master Circular DCBR.BPD.(PCB). MC.No.10/09.18.201/2015-16 dated July 1, 2015 on Prudential Norms on Capital Adequacy - UCBs:

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
1	Annex 1 Para II	**Additional Risk Weights in respect of Overseas Operations of Banks** (Applicable to Authorised Dealers only) 1. **Foreign Exchange and Interest Rate related Contracts** (i) Foreign exchange contracts include the following: (a) Cross currency interest rate swaps (b) Forward foreign exchange contracts (c) Currency futures (d) Currency options purchased (e) Other contracts of a similar nature (ii) As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied : (a) Step 1 - The notional principal amount of each instrument is multiplied by the conversion factor given below:	**Additional Risk Weights** ~~**in respect of Overseas Operations of Banks**~~ (Applicable to Authorised Dealers only) 1. **Foreign Exchange and Interest Rate related Contracts** 1.1~~(i)~~ Foreign exchange contracts include the following: (a) Cross currency ~~interest rate~~ swaps (b) Forward foreign exchange contracts (c) Currency futures (d) Currency options purchased (e) Other contracts of a similar nature 1.2 Interest rate contracts include the following: (a) Single currency interest rate swaps (b) Basis swaps (c) Forward rate agreements (d) Interest rate futures (e) Interest rate options purchased (f) Other contracts of a similar nature 1.3~~(ii)~~ As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied~~ ~~:

<table>
<tr><th>Sr. No.</th><th>Reference Paragraph</th><th>Existing Extract</th><th>Amended text in RBI regulation (track change mode)</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Original maturity</th><th>Conversion factor</th></tr>
<tr><td>Less than one year</td><td>2%</td></tr>
<tr><td>One year and less than two years</td><td>5% (i.e. 2% + 3%)</td></tr>
<tr><td>For each additional year</td><td>3%</td></tr>
</table>

(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weight allotted to the relevant counter-party as given in I-A above.

2. Interest Rate Contracts

(iii) Interest rate contracts include the following :
(a) Single currency interest rate swaps
(b) Basic swaps
(c) Forward rate agreements
(d) Interest rate futures
(e) Interest rate options purchased
(f) Other contracts of a similar nature

(iv) As in the case of other off-Balance Sheet items, a two
</td><td>
(a) Step 1 - The notional principal amount of each instrument is multiplied by the conversion factor given below:

<table>
<tr><th rowspan="2">Original maturity</th><th colspan="2">Conversion factor</th></tr>
<tr><td>Interest rate contracts</td><td>Foreign Exchange Contracts</td></tr>
<tr><td>Less than one year</td><td>0.5%</td><td>2%</td></tr>
<tr><td>One year and less than two years</td><td>1.0%</td><td>5% (i.e. 2% + 3%)</td></tr>
<tr><td>For each additional year</td><td>1.0%</td><td>3%</td></tr>
</table>

When effective bilateral netting contracts as specified in paragraph II.3 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable[1]*:
</td></tr>
</table>

<table>
<tr><th>Sr. No.</th><th>Reference Paragraph</th><th>Existing Extract</th><th>Amended text in RBI regulation (track change mode)</th></tr>
<tr><td></td><td></td><td>stage calculation prescribed below shall be applied:

(a) Step 1 - The notional principal amount of each instrument is multiplied by the percentages given below:
<table>
<tr><th>Original maturity</th><th>Conversion factor</th></tr>
<tr><td>Less than one year</td><td>0.5%</td></tr>
<tr><td>One year and less than two years</td><td>1.0%</td></tr>
<tr><td>For each additional year</td><td>1.0%</td></tr>
</table>

(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as given in I-A above.
Note: At present, most of the Primary (Urban) Cooperative Banks are not carrying out forex transactions. However, those who have been given A.D's licence may undertake transactions mentioned above. In the event of any uncertainly in assigning risk weight against a specific transaction, RBI clarification may be sought for.</td>
<td>
<table>
<tr><th rowspan="2">Original maturity</th><th colspan="2">Conversion factor</th></tr>
<tr><th>Interest rate contracts</th><th>Foreign Exchange Contracts</th></tr>
<tr><td>Less than one year</td><td>0.35%</td><td>1.5%</td></tr>
<tr><td>One year and less than two years</td><td>0.75%</td><td>3.75% (i.e. 1.5% + 2.25%)</td></tr>
<tr><td>For each additional year</td><td>0.75%</td><td>2.25%</td></tr>
</table>

(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weight allotted to the relevant counter-party as given in I-A above.

Footnote 1: For purposes of calculating the credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, the original credit conversion factors (i.e. without considering the impact of bilateral netting) should be applied to the notional principal, which is defined as the net receipts</td></tr>
</table>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
		3. **Repo in Corporate Bonds** UCBs which are lenders of funds in the repo transaction are required to provide counter-party credit risk corresponding to the risk weight for such exposure as applicable to the loan / investment exposure.	*falling due on each value date in each currency. In no case should the reduced factors above be applied to net notional amounts.* ~~2. **Interest Rate Contracts**~~ ~~(iii) Interest rate contracts include the following :~~ ~~(a) Single currency interest rate swaps~~ ~~(b) Basic swaps~~ ~~(c) Forward rate agreements~~ ~~(d) Interest rate futures~~ ~~(e) Interest rate options purchased~~ ~~(f) Other contracts of a similar nature~~ ~~(iv) As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied:~~ ~~(a) Step 1 - The notional principal amount of each instrument is multiplied by the percentages given below:~~

<table>
<tr><th>Sr. No.</th><th>Reference Paragraph</th><th>Existing Extract</th><th>Amended text in RBI regulation (track change mode)</th></tr>
<tr><td></td><td></td><td></td><td>
<table>
<tr><th>~~Original maturity~~</th><th>~~Conversion factor~~</th></tr>
<tr><td>~~Less than one year~~</td><td>~~0.5%~~</td></tr>
<tr><td>~~One year and less than two years~~</td><td>~~1.0%~~</td></tr>
<tr><td>~~For each additional year~~</td><td>~~1.0%~~</td></tr>
</table>

~~When effective bilateral netting contracts as specified in paragraph II.4 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable*:~~

<table>
<tr><th>~~Original maturity~~</th><th>~~Conversion factor~~</th></tr>
<tr><td>~~Less than one year~~</td><td>~~0.35%~~</td></tr>
<tr><td>~~One year and less than two years~~</td><td>~~0.75%~~</td></tr>
<tr><td>~~For each additional year~~</td><td>~~0.75%~~</td></tr>
</table>

~~(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as given in I-A above.~~
</td></tr>
</table>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			Note: *At present, most of the Primary (Urban) Cooperative Banks are not carrying out forex transactions. However, those who have been given A.D's licence may undertake transactions mentioned above. In the event of any uncertainly in assigning risk weight against a specific transaction, RBI clarification may be sought for.* 2~~3~~. **Repo in Corporate Bonds** UCBs which are lenders of funds in the repo transaction are required to provide counter-party credit risk corresponding to the risk weight for such exposure as applicable to the loan / investment exposure. 3. **Requirement for recognition of Bilateral Netting Contract**: (a) UCBs may net transactions subject to novation under which any obligation between a UCB and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			same currency and value date, legally substituting one single amount for the previous gross obligations. (b) UCBs may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation. (c) In both cases (a) and (b), a UCB will need to satisfy that it has: (i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the UCB would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances; (ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the UCB's exposure to be such a net amount under: • The law of the jurisdiction in which the

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			counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located; • The law that governs the individual transactions; and • The law that governs any contract or agreement necessary to effect the netting. (iii) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law. (d) Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.