

Master Circular RPCD.CO.RRB.No.BC.44/05.03.095/2007-08 dated December 28, 2007 on [Application of Capital Adequacy Norms to Regional Rural Banks](#):

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
1	Annex 1 Para II	<p>Additional Risk Weights in respect of Overseas Operations of Indian Banks (Applicable to Authorised Dealers only)</p> <p>1. Foreign Exchange and Interest Rate related Contracts</p> <p>i) Foreign exchange contracts include the following:</p> <ol style="list-style-type: none"> Cross currency interest rate swaps Forward foreign exchange contracts Currency futures Currency options purchased Other contracts of a similar nature <p>(ii) As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied :</p> <p>(a) Step 1 - The notional principal amount of each instrument is multiplied by the conversion factor given below:</p>	<p>Additional Risk Weights in respect of Overseas Operations of Indian Banks (Applicable to Authorised Dealers only)</p> <p>1. Foreign Exchange and Interest Rate related Contracts</p> <p>i) Foreign exchange contracts include the following:</p> <ol style="list-style-type: none"> Cross currency interest rate swaps Forward foreign exchange contracts Currency futures Currency options purchased Other contracts of a similar nature <p>(ii) As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied :</p> <p>(a) Step 1 - The notional principal amount of each instrument is multiplied by the conversion factor given below:</p>

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			<p><u>previous gross obligations.</u></p> <p><u>(b) Banks may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.</u></p> <p><u>(c) In both cases (a) and (b), a bank will need to satisfy that it has:</u></p> <p><u>(i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank 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;</u></p> <p><u>(ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:</u></p> <ul style="list-style-type: none"> <u>• The law of the jurisdiction in which the counterparty is chartered and, if the foreign</u>

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			<p><u>branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located;</u></p> <ul style="list-style-type: none"> • <u>The law that governs the individual transactions;</u> <u>and</u> • <u>The law that governs any contract or agreement necessary to effect the netting.</u> <p><u>(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.</u></p> <p><u>(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.</u></p>