

Master Direction DOR.FIN.HFC.CC.No.120/03.10.136/2020-21 dated February 17, 2021 - [Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#):

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
1	Chapter IV Paragraph 6.3.10 Notes	<p>Current Exposure Method</p> <p>6.3.8. The total credit exposure to a counterparty in respect of derivative transactions should be calculated according to the current exposure method as explained below.</p> <p>The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of:</p> <p>a. current credit exposure; and</p> <p>b. potential future credit exposure of the contract.</p> <p>6.3.9. Current credit exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty shall not be netted). The current exposure method requires periodical calculation of the current credit exposure by marking these contracts to market.</p> <p>6.3.10. Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero,</p>	<p>Current Exposure Method <a href="#">(used for measuring capital charge for default risk)</a></p> <p>6.3.8. The total credit exposure to a counterparty in respect of derivative transactions should be calculated according to the current exposure method as explained below.</p> <p>The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of:</p> <p>a. current <del>credit</del> exposure; and</p> <p>b. potential future <del>credit</del> exposure of the contract.</p> <p>6.3.9. Current <del>credit</del> exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty shall not be netted). The current exposure method requires periodical calculation of the current <del>credit</del> exposure by marking these contracts to market.</p> <p>6.3.10. Potential future <del>credit</del> exposure is determined by multiplying the notional principal amount of each of these</p>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)																																				
		<p>positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.</p> <table border="1" data-bbox="432 416 1211 820"> <thead> <tr> <th colspan="3" data-bbox="432 416 1211 517"><b>Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives</b></th> </tr> <tr> <th data-bbox="432 517 692 568"></th> <th colspan="2" data-bbox="692 517 1211 568">Credit Conversion Factors (%)</th> </tr> <tr> <th data-bbox="432 568 692 671"></th> <th data-bbox="692 568 952 671">Interest Rate Contracts</th> <th data-bbox="952 568 1211 671">Exchange Rate Contracts &amp; Gold</th> </tr> </thead> <tbody> <tr> <td data-bbox="432 671 692 711">One year or less</td> <td data-bbox="692 671 952 711">0.50</td> <td data-bbox="952 671 1211 711">2.00</td> </tr> <tr> <td data-bbox="432 711 692 783">Over one year to five years</td> <td data-bbox="692 711 952 783">1.00</td> <td data-bbox="952 711 1211 783">10.00</td> </tr> <tr> <td data-bbox="432 783 692 820">Over five years</td> <td data-bbox="692 783 952 820">3.00</td> <td data-bbox="952 783 1211 820">15.00</td> </tr> </tbody> </table> <p>Notes:</p> <p>a. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.</p> <p>b. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. However,</p>	<b>Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives</b>				Credit Conversion Factors (%)			Interest Rate Contracts	Exchange Rate Contracts & Gold	One year or less	0.50	2.00	Over one year to five years	1.00	10.00	Over five years	3.00	15.00	<p>contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.</p> <table border="1" data-bbox="1243 467 2022 871"> <thead> <tr> <th colspan="3" data-bbox="1243 467 2022 568"><b>Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives</b></th> </tr> <tr> <th data-bbox="1243 568 1503 619"></th> <th colspan="2" data-bbox="1503 568 2022 619">Credit Conversion Factors (%)</th> </tr> <tr> <th data-bbox="1243 619 1503 722"></th> <th data-bbox="1503 619 1762 722">Interest Rate Contracts</th> <th data-bbox="1762 619 2022 722">Exchange Rate Contracts &amp; Gold</th> </tr> </thead> <tbody> <tr> <td data-bbox="1243 722 1503 762">One year or less</td> <td data-bbox="1503 722 1762 762">0.50</td> <td data-bbox="1762 722 2022 762">2.00</td> </tr> <tr> <td data-bbox="1243 762 1503 834">Over one year to five years</td> <td data-bbox="1503 762 1762 834">1.00</td> <td data-bbox="1762 762 2022 834">10.00</td> </tr> <tr> <td data-bbox="1243 834 1503 871">Over five years</td> <td data-bbox="1503 834 1762 871">3.00</td> <td data-bbox="1762 834 2022 871">15.00</td> </tr> </tbody> </table> <p>Notes:</p> <p>a. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.</p> <p>b. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be</p>	<b>Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives</b>				Credit Conversion Factors (%)			Interest Rate Contracts	Exchange Rate Contracts & Gold	One year or less	0.50	2.00	Over one year to five years	1.00	10.00	Over five years	3.00	15.00
<b>Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives</b>																																							
	Credit Conversion Factors (%)																																						
	Interest Rate Contracts	Exchange Rate Contracts & Gold																																					
One year or less	0.50	2.00																																					
Over one year to five years	1.00	10.00																																					
Over five years	3.00	15.00																																					
<b>Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives</b>																																							
	Credit Conversion Factors (%)																																						
	Interest Rate Contracts	Exchange Rate Contracts & Gold																																					
One year or less	0.50	2.00																																					
Over one year to five years	1.00	10.00																																					
Over five years	3.00	15.00																																					

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
		<p>in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.</p> <p>c. No potential future credit exposure would be calculated for single currency floating/ floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.</p> <p>d. Potential future exposures shall be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the applicable NBFC would have an effective notional amount of USD 2 million.</p> <p><i>Credit conversion factors for Credit Default Swaps (CDS):</i> 6.3.11 .....</p>	<p>set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.</p> <p>c. No potential future <del>credit</del> exposure would be calculated for single currency floating/ floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.</p> <p>d. Potential future exposures shall be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the applicable NBFC would have an effective notional amount of USD 2 million.</p> <p><a href="#">6.3.10.A When effective bilateral netting contract as specified in 6.3.10.C are in place, RC will be the net replacement cost and the add-on will be A<sub>Net</sub> as calculated below:</a></p>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			<p><u>(ai) Credit exposure on bilaterally netted forward transactions will be calculated as the sum of the net mark-to-market replacement cost, if positive, plus an add-on based on the notional underlying principal. The add-on for netted transactions (<math>A_{Net}</math>) will equal the weighted average of the gross add-on (<math>A_{Gross}</math>) and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:</u></p> <hr/> $A_{Net} = 0.4 \cdot A_{Gross} + 0.6 \cdot NGR \cdot A_{Gross}$ <p><u>where:</u></p> <p><u>NGR = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements<sup>5A</sup></u></p> <p><u><math>A_{Gross}</math> = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in the table in paragraph 6.3.10 and paragraph 6.3.11)</u></p>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			<p><u>of all transactions subject to legally enforceable netting agreements with one counterparty.</u></p> <p><u>(bii) For the purposes of calculating potential future exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which the notional principal amount is equivalent to cash flows, the notional principal is defined as the net receipts falling due on each value date in each currency. The reason for this is that offsetting contracts in the same currency maturing on the same date will have lower potential future exposure as well as lower current exposure.</u></p> <p><u><i>Footnote 5A: NBFC-HFCs must calculate NGR on a counterparty by counterparty basis for all transactions that are subject to legally enforceable netting agreements.</i></u></p> <p><u>6.3.10.B Definitions and general terminology</u></p> <p><u>(a) <b>Current Exposure</b> is the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the</u></p>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			<p><u>default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is often also called Replacement Cost (RC).</u></p> <p><u>(b) <b>Netting Set</b> is a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised for regulatory capital purposes. Each transaction that is not subject to a legally enforceable bilateral netting arrangement that is recognised for regulatory capital purposes should be interpreted as its own netting set for the purpose of these rules.</u></p> <p><u>6.3.10.C Requirement for recognition of Bilateral Netting Contract:</u></p> <p><u>(a) NBFC-HFCs may net transactions subject to novation under which any obligation between a NBFC-HFC and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.</u></p> <p><u>(b) NBFC-HFCs may also net transactions subject to any</u></p>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			<p><u>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 NBFC-HFC 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 NBFC-HFC 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 NBFC-HFC's exposure to be such a net amount under:</u></p> <ul style="list-style-type: none"> <li><u>• The law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the</u></li> </ul>

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
			<p><u>branch is located;</u></p> <ul style="list-style-type: none"> <li>• <u>The law that governs the individual transactions;</u></li> <li><u>and</u></li> <li>• <u>The law that governs any contract or agreement necessary to effect the netting.</u></li> </ul> <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> <p><i>Credit conversion factors for Credit Default Swaps (CDS):</i> 6.3.11 .....</p>