Annex 1

Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on Basel III Capital Regulations:

Sr. No.	Reference Paragraph	Existing Extract	Amended text in RBI regulation (track change mode)
1	5.15.3.1	……. • Netting may be used to mitigate the risk[51]. • Positions are frequently valued (most commonly on a daily basis), according to market variables. • Remargining may be employed. *Footnote 51: Please refer to DBOD.No.BP.BC.48/21.06.001/2010-11 October 1, 2010 on Prudential Norms for Off-Balance Sheet Exposures of Banks – Bilateral netting of counterparty credit exposures. As indicated therein, bilateral netting of mark-to-market (MTM) values arising on account of derivative contracts is not permitted.*	…… • Netting may be used to mitigate the risk[51]. • Positions are frequently valued (most commonly on a daily basis), according to market variables. • Remargining may be employed. *Footnote 51: Deleted ~~Please refer to DBOD.No.BP.BC.48/21.06.001/2010-11 October 1, 2010 on Prudential Norms for Off-Balance Sheet Exposures of Banks – Bilateral netting of counterparty credit exposures. As indicated therein, bilateral netting of mark-to-market (MTM) values arising on account of derivative contracts is not permitted.~~*
2	5.15.3.3	**……** **Securities Financing Transactions (SFTs)** are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, collateralised borrowing and lending (CBLO) and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.	**……** **Securities Financing Transactions (SFTs)** are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, collateralised borrowing and lending (CBLO) and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

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		Hedging Set is a group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining the exposure amount or EAD under the CCR standardised method. **Current Exposure** 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 default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is often also called Replacement Cost. **Credit Valuation Adjustment** is an adjustment to the mid-market valuation of the portfolio of trades with a counterparty. This adjustment reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty. This adjustment may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the bank and the counterparty. **One-Sided Credit Valuation Adjustment** is a credit valuation adjustment that reflects the market value of the credit risk of the counterparty to the firm, but does not reflect	**Netting Set** 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. **Hedging Set** is a group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining the exposure amount or EAD under the CCR standardised method. **Current Exposure** 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 default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is often also called Replacement Cost. **Credit Valuation Adjustment** is an adjustment to the mid-market valuation of the portfolio of trades with a counterparty. This adjustment reflects the market value of the credit risk due

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		the market value of the credit risk of the bank to the counterparty. ……	to any failure to perform on contractual agreements with a counterparty. This adjustment may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the bank and the counterparty. **One-Sided Credit Valuation Adjustment** is a credit valuation adjustment that reflects the market value of the credit risk of the counterparty to the ~~firm~~bank, but does not reflect the market value of the credit risk of the bank to the counterparty. **Outstanding EAD** for a given OTC derivative counterparty is defined as the greater of zero and the difference between the sum of EADs across all netting sets with the counterparty and the credit valuation adjustment (CVA) for that counterparty which has already been recognised by the bank as an incurred write-down (ie a CVA loss). **Cross-Product Netting** refers to the inclusion of transactions of different product categories within the same netting set ……
3	5.15.3.5	……. (vi) For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of	…… Notes: (a) ~~(vi)~~ For contracts with multiple exchanges of

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		remaining payments in the contract. (vii) 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, 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%. (viii) 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. (ix) Potential future exposures should 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, banks must use the 'effective notional amount' when determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an	principal, the add-on factors are to be multiplied by the number of remaining payments in the contract. (b) ~~(vii)~~ 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, 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%. (c) ~~(viii)~~ 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. (d) ~~(ix)~~ Potential future exposures should 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, banks must use the 'effective notional amount' when

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		internal rate of two times the BPLR / Base Rate would have an effective notional amount of USD 2 million.	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 BPLR / Base Rate would have an effective notional amount of USD 2 million. (vi) When effective bilateral netting contracts as specified in Annex 20 (part B) are in place, RC will be the net replacement cost and the add-on will be A_{Net} as calculated below: (a) 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 (A_{Net}) will equal the weighted average of the gross add-on (A_{Gross}) 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: $A_{Net} = 0.4 \cdot A_{Gross} + 0.6 \cdot NGR \cdot A_{Gross}$ where:

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			NGR = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements[55A] A_{Gross} = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in Table 9 of paragraph 5.15.3.5 and Tables 22 & 23 of paragraph 8.6.3) of all transactions subject to legally enforceable netting agreements with one counterparty. (b) For the purposes of calculating potential future credit 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

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			current exposure. *Footnote 55A: Banks must calculate NGR on a counterparty by counterparty basis for all transactions that are subject to legally enforceable netting agreements.*
4	5.15.3.6	(ii) …… • **EAD**i^{total} is the gross exposure at default of counterparty 'i' without taking into account the effect of bilateral netting[56] including the effect of collateral as per the existing Current Exposure Method (CEM) as applicable to the calculation of counterparty risk capital charges for such counterparty by the bank. The exposure should be discounted by applying the factor (1-exp(-0.05*Mi))/(0.05*Mi). …… Footnote 56: Please refer to the circular DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010 on bilateral netting of counterparty credit, which states that owing to legal issues bilateral netting of counterparty exposures is not permitted in India. Therefore, each transaction with counterparty becomes its own netting set.	(ii)…… **EAD**i^{total} is the ~~gross~~ exposure at default of counterparty 'i' (summed across its netting sets) ~~without taking into account the effect of bilateral netting[56]~~ including the effect of collateral as per the existing Current Exposure Method (CEM) as applicable to the calculation of counterparty risk capital charges for such counterparty by the bank. The exposure should be discounted by applying the factor (1-exp(-0.05*Mi))/(0.05*Mi). ……. Footnote 56: Deleted ~~Please refer to the circular DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010 on bilateral netting of counterparty credit, which states that owing to legal issues bilateral netting of counterparty exposures is not permitted in India. Therefore, each transaction with counterparty becomes its own netting set.~~
5	7.3.8	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	7.3.8.1 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

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		of the cash. ……	the cash. ……. 7.3.8.2 The formula in paragraph 7.3.6 will be adapted as follows to calculate the capital requirements for transactions with bilateral netting agreements. The bilateral netting agreements must meet the requirements set out in Annex 20 (part A) of these guidelines. E* = max {0, [(Σ(E) – Σ(C)) + Σ (Es x Hs) +Σ (Efx x Hfx)]} where: E* = the exposure value after risk mitigation E = current value of the exposure C = the value of the collateral received Es = absolute value of the net position in a given security Hs = haircut appropriate to Es Efx = absolute value of the net position in a currency different from the settlement currency Hfx = haircut appropriate for currency

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			mismatch The intention here is to obtain a net exposure amount after netting of the exposures and collateral and have an add-on amount reflecting possible price changes for the securities involved in the transactions and for foreign exchange risk if any. The net long or short position of each security included in the netting agreement will be multiplied by the appropriate haircut. All other rules regarding the calculation of haircuts stated in paragraphs 7.3.6-7.3.7 equivalently apply for banks using bilateral netting agreements for repo-style transactions.
6	7.3.9	No reference	A new paragraph is added as given below: **Collateralised OTC derivatives transactions** The calculation of the counterparty credit risk charge for an individual contract will be as follows: counterparty charge = [(RC + add-on) – C_A] x r x 9% where: RC = the replacement cost, add-on = the amount for potential future exposure calculated

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			according to paragraph 5.15.3.5, C_A = the volatility adjusted collateral amount under the comprehensive approach prescribed in paragraphs 7.3.6-7.3.7 or zero if no eligible collateral is applied to the transaction, and r = the risk weight of the counterparty. When effective bilateral netting contracts are in place, RC will be the net replacement cost and the add-on will be A_{Net} as calculated according to Annex 20 (part B) and paragraph 5.15.3.5. The haircut for currency risk (Hfx) should be applied when there is a mismatch between the collateral currency and the settlement currency. Even in the case where there are more than two currencies involved in the exposure, collateral and settlement currency, a single haircut assuming a 10-business day holding period scaled up as necessary depending on the frequency of mark-to-market will be applied.
7	16.4.3.2	Banks must calculate their derivative exposures[117], including where a bank sells protection using a credit derivative, as the replacement cost (RC)[118] for the current exposure plus an add-on for potential future exposure (PFE), as described in paragraph 16.4.3.3 below. If the derivative exposure is covered by an eligible bilateral netting contract as specified in the Annex 20 (part B)[119], an alternative treatment as	Banks must calculate their derivative exposures[117], including where a bank sells protection using a credit derivative, as the replacement cost (RC)[118] for the current exposure plus an add-on for potential future exposure (PFE), as described in paragraph 16.4.3.3 below. If the derivative exposure is covered by an eligible bilateral netting contract as specified in the Annex 20 (part B)~~[119]~~, an alternative treatment as indicated

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		indicated in paragraph 16.4.3.4 below may be applied[120]. Written credit derivatives are subject to an additional treatment, as set out in paragraphs 16.4.3.11 to 16.4.3.14 below. *Footnote 117: …..* *Footnote 118: …..* *Footnote 119: Currently, relevant only in case of banks' exposures to Qualifying Central Counterparties (QCCPs) subject to conditions mentioned in paragraph 5.15.3.9. In case of OTC derivatives, please refer to circular DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010 on Prudential Norms for Off-Balance Sheet Exposures of Banks – Bilateral netting of counterparty credit exposures. As indicated therein, bilateral netting of mark-to-market (MTM) values arising on account of derivative contracts is not permitted.* *Footnote 120: These netting rules are with the exception of cross-product netting i.e. cross-product netting is not permitted in determining the leverage ratio exposure measure.*	in paragraph 16.4.3.4 below may be applied[120]. Written credit derivatives are subject to an additional treatment, as set out in paragraphs 16.4.3.11 to 16.4.3.14 below. *Footnote 117: …..* *Footnote 118: …..* *Footnote 119: Deleted ~~Currently, relevant only in case of banks' exposures to Qualifying Central Counterparties (QCCPs) subject to conditions mentioned in paragraph 5.15.3.9. In case of OTC derivatives, please refer to circular DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010 on Prudential Norms for Off-Balance Sheet Exposures of Banks – Bilateral netting of counterparty credit exposures. As indicated therein, bilateral netting of mark-to-market (MTM) values arising on account of derivative contracts is not permitted.~~* *Footnote 120: These netting rules are with the exception of cross-product netting i.e. cross-product netting is not permitted in determining the leverage ratio exposure measure. However, where a bank has a cross-product netting agreement in place that meets the eligibility criteria of Annex 20 (part B) it may choose to perform netting separately in each product category provided that all other conditions for netting in this product category that are applicable to the Basel III leverage ratio are met.*

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8	16.4.3.3	For a single derivative contract, the amount to be included in the exposure measure is determined as follows: exposure measure = replacement cost (RC) + add-on *where;* RC = the replacement cost of the contract (obtained by marking to market), where the contract has a positive value. add-on = an amount for PFE over the remaining life of the contract calculated by applying an add-on factor to the notional principal amount of the derivative. The add-on factors are given in Table 9 of paragraph 5.15.3.5 and Tables 22 & 23 of paragraph 8.6.3.	16.4.3.3 For a single derivative exposure, not covered by an eligible bilateral netting contract as specified in Annex 20 (part B), the amount to be included in the exposure measure is determined as follows: exposure measure = replacement cost (RC) + add-on where RC = the replacement cost of the contract (obtained by marking to market), where the contract has a positive value. add-on = an amount for PFE over the remaining life of the contract calculated by applying an add-on factor to the notional principal amount of the derivative. The add-on factors are given in Table 9 of paragraph 5.15.3.5 and Tables 22 & 23 of paragraph 8.6.3.
9	16.4.3.4	***Bilateral netting:*** when an eligible bilateral netting contract is in place as specified in paragraph 5.15.3.9(i) and Annex 20 (part B), the RC for the set of derivative exposures covered by the contract will be the sum of net replacement cost and the add-on factors as described in paragraph 16.4.3.3 above.	16.4.3.4 **Bilateral netting**: when an eligible bilateral netting contract is in place as specified in ~~paragraph 5.15.3.9(i) and~~ Annex 20 (part B), the RC for the set of derivative exposures covered by the contract will be the net replacement cost and the add-on factors as described in paragraph 16.4.3.3 above will be A_{Net} as calculated below: (a) Credit exposure on bilaterally netted forward transactions

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			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 (A_{Net}) will equal the weighted average of the gross add-on (A_{Gross}) 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: $A_{Net} = 0.4 \cdot A_{Gross} + 0.6 \cdot NGR \cdot A_{Gross}$ where: NGR = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements[120A] A_{Gross} = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in Table 9 of paragraph 5.15.3.5 and Tables 22 & 23 of paragraph 8.6.3) of all transactions subject to legally enforceable netting agreements with one counterparty. (b) For the purposes of calculating potential future credit exposure to a netting counterparty for forward foreign

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			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. *Footnote 120A: Banks must calculate NGR on a counterparty by counterparty basis for all transactions that are subject to legally enforceable netting agreements*
10	16.4.3.8	…….. (v) Derivatives transactions and variation margins are covered by a single master netting agreement (MNA)[126,127] between the legal entities that are the counterparties in the derivatives transaction. The MNA must explicitly stipulate that the counterparties agree to settle net any payment obligations covered by such a netting agreement, taking into account any variation margin received or provided if a credit event occurs involving either counterparty. The MNA must be legally enforceable and effective[128] in all relevant jurisdictions, including in the event of default and bankruptcy	…….. (v) Derivatives transactions and variation margins are covered by a single master netting agreement (MNA)[126,127] between the legal entities that are the counterparties in the derivatives transaction. The MNA must explicitly stipulate that the counterparties agree to settle net any payment obligations covered by such a netting agreement, taking into account any variation margin received or provided if a credit event occurs involving either counterparty. The MNA must be legally enforceable and effective[128] in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency.

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		or insolvency. *Footnote 126: ….* *Footnote 127: ….* *Footnote 128: A master netting agreement (MNA) is deemed to meet this criterion if it satisfies the conditions as specified in paragraph 5.15.3.9(i) and Annex 20 (part B).*	*Footnote 126: ….* *Footnote 127: ….* *Footnote 128: A master netting agreement (MNA) is deemed to meet this criterion if it satisfies the conditions as specified in ~~paragraph 5.15.3.9(i) and~~ Annex 20 (part B).*
11	16.4.3.9	……. • …. • …. Cash variation margin may not be used to reduce the PFE amount.	……. • …. • …. Cash variation margin may not be used to reduce the PFE amount (including the calculation of the net-to-gross ratio (NGR) as defined in 16.4.3.4).
12	16.4.3.14	Since written credit derivatives are included in the exposure measure at their effective notional amounts, and are also subject to add-on amounts for PFE, the exposure measure for written credit derivatives may be overstated. Banks may therefore choose to deduct the individual PFE add-on amount relating to a written credit derivative (which is not offset according to paragraph 16.4.3.13 and whose effective notional amount is included in the exposure measure) from their gross add-on in paragraphs 16.4.3.2 to 16.4.3.4[137].	Since written credit derivatives are included in the exposure measure at their effective notional amounts, and are also subject to add-on amounts for PFE, the exposure measure for written credit derivatives may be overstated. Banks may therefore choose to deduct the individual PFE add-on amount relating to a written credit derivative (which is not offset according to paragraph 16.4.3.13 and whose effective notional amount is included in the exposure measure) from their gross add-on in paragraphs 16.4.3.2 to 16.4.3.4[137].

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		Footnote 137: The PFE add-on may be set to zero in order to avoid the double-counting described in this paragraph.	*Footnote 137: In these cases, where effective bilateral netting contracts are in place, and when calculating $A_{Net} = 0.4 \cdot A_{Gross} + 0.6 \cdot NGR \cdot A_{Gross}$ as per paragraphs 16.4.3.2 to 16.4.3.4, A_{Gross} may be reduced by the individual add-on amounts (ie notionals multiplied by the appropriate add-on factors) which relate to written credit derivatives whose notional amounts are included in the leverage ratio exposure measure. However, no adjustments must be made to NGR. Where effective bilateral netting contracts are not in place, the PFE add-on may be set to zero in order to avoid the double-counting described in this paragraph.*
13	16.4.4.2 (B)	A measure of CCR calculated as the current exposure without an add-on for PFE, calculated as follows: (i) Where a qualifying MNA[144] is in place, the current exposure (E*) is the greater of zero and the total fair value of securities and cash lent to a counterparty for all transactions included in the qualifying MNA (ΣEi), less the total fair value of cash and securities received from the counterparty for those transactions (ΣCi). This is illustrated in the following formula: …… *Footnote 144: A "qualifying" MNA is one that meets the requirements under paragraph 5.15.3.9 (exposures to QCCPs) and Annex 20 part A.*	A measure of CCR calculated as the current exposure without an add-on for PFE, calculated as follows: (i) Where a qualifying MNA[144] is in place, the current exposure (E*) is the greater of zero and the total fair value of securities and cash lent to a counterparty for all transactions included in the qualifying MNA (ΣEi), less the total fair value of cash and securities received from the counterparty for those transactions (ΣCi). This is illustrated in the following formula: …… *Footnote 144: A "qualifying" MNA is one that meets the requirements under ~~paragraph 5.15.3.9 (exposures to QCCPs) and~~ Annex 20 part A.*
14	Annex 7	…….	…….

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		12. Netting of Exposures No netting of positive and negative marked-to-market values of the contracts with the same counterparty, including that in the case of hedged positions will be allowed for the purpose of capital adequacy for counterparty credit risk, provisioning and exposure norms in terms of circular DBOD.No.BP.BC.48/21.06.001/2010-11 October 1, 2010. …..	~~12. Netting of Exposures~~ ~~No netting of positive and negative marked-to-market values of the contracts with the same counterparty, including that in the case of hedged positions will be allowed for the purpose of capital adequacy for counterparty credit risk, provisioning and exposure norms in terms of circular DBOD.No.BP.BC.48/21.06.001/2010-11 October 1, 2010.~~ …..
15	Annex 18	……. Table DF-10: General Disclosure for Exposures Related to Counterparty Credit Risk …… (b) Gross positive fair value of contracts, netting benefits[234], netted current credit exposure, collateral held (including type, e.g. cash, government securities, etc.), and net derivatives credit exposure[235]. Also report measures for exposure at default, or exposure amount, under CEM. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure[236]. …….. Footnote 234: Please refer to the circular	……. Table DF-10: General Disclosure for Exposures Related to Counterparty Credit Risk …… (b) Gross positive fair value of contracts, netting benefits[234], netted current credit exposure, collateral held (including type, e.g. cash, government securities, etc.), and net derivatives credit exposure[235]. Also report measures for exposure at default, or exposure amount, under CEM. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure[236]. ……..

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		DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010. Footnote 235: …. Footnote 236: ….	Footnote 234: Deleted ~~Please refer to the circular DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010.~~ Footnote 235: …. Footnote 236: ….
16	Annex 20	**Annex 20** **(cf. para 5.15.3.9)** **Requirements for Recognition of Net Replacement Cost[1] in Close-out Netting Sets** **A. For repo-style transactions** The effects of bilateral netting agreements covering repo-style transactions will be recognised on a counterparty-by-counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt. In addition, netting agreements must: a) provide the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty; b) provide for the netting of gains and losses on transactions (including the value of any collateral)	**Annex 20** **~~(cf. para 5.15.3.9)~~** **Requirements for Recognition of Net Replacement Cost[1]** **in Close-out Netting Sets** **A. For repo-style transactions** The effects of bilateral netting agreements covering repo-style transactions will be recognised on a counterparty-by-counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt. In addition, netting agreements must: a) provide the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty; b) provide for the netting of gains and losses on transactions (including the value of any collateral) terminated and

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		terminated and closed out under it so that a single net amount is owed by one party to the other; c) allow for the prompt liquidation or setoff of collateral upon the event of default; and d) be, together with the rights arising from the provisions required in (a) to (c) above, legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of the counterparty's insolvency or bankruptcy. **B. For Derivatives transactions** ……. *Footnote 1: Please refer to our circular DBOD.No.BP.BC.28/21.06.201/2013-14 dated July 2, 2013.*	closed out under it so that a single net amount is owed by one party to the other; c) allow for the prompt liquidation or setoff of collateral upon the event of default; and d) be, together with the rights arising from the provisions required in (a) to (c) above, legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of the counterparty's insolvency or bankruptcy. (e) Netting across positions in the banking and trading book will only be recognised when the netted transactions fulfil the following conditions: (i) All transactions are marked to market daily[1]; and (ii) The collateral instruments used in the transactions are recognised as eligible financial collateral in the banking book. **B. For Derivatives transactions** ……. ~~*Footnote 1: Please refer to our circular DBOD.No.BP.BC.28/21.06.201/2013-14 dated July 2, 2013.*~~

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			Footnote 1: The holding period for the haircuts will depend as in other repo-style transactions on the frequency of margining.