**Annex**

## Clarifications/Amendments to the Guidelines on Basel III Capital Regulations issued vide Circular DBOD.No.BP.BC.98/21.06.201/2011-12 on dated May 2, 2012

| S.No. | **Existing Annex/Paragraph** (deletions indicated in ~~strikethrough~~) | **Revised Paragraph** (additions indicated in *italics and underlined*) |
|---|---|---|
| 1 | **Annex 1, Section A, Para 2.2.7- Footnote no.4** | |
| | During the transition period, the excess will be determined with reference to the applicable minimum Common Equity Tier 1 capital and applicable capital conservation buffer and the proportion with reference to the available Common Equity. For instance, as on ~~January 1, 2015~~, the excess Additional Tier 1 and Tier 2 will be determined with reference to total Common Equity 6.125% (5.5%+0.625%) and the proportion with reference to 5.5% Common Equity Tier 1 capital. | During the transition period, the excess will be determined with reference to the applicable minimum Common Equity Tier 1 capital and applicable capital conservation buffer and the proportion with reference to the available Common Equity. For instance, as on *March 31, 2015*, the excess Additional Tier 1 and Tier 2 will be determined with reference to total Common Equity 6.125% (5.5%+0.625%) and the proportion with reference to 5.5% Common Equity Tier 1 capital. |
| 2 | **Annex 1, Section B, Para 3.2.2** | |
| | The insurance and non-financial subsidiaries / joint ventures / associates etc. of a bank **should not** be consolidated for the purpose of capital adequacy. The equity and other regulatory capital investments in the insurance and non-financial subsidiaries will be deducted from consolidated regulatory capital of the group. Equity and other regulatory capital investments in the unconsolidated insurance and non-financial entities of banks (which also include joint ventures / associates of the parent bank) will be treated in terms of **paragraph 4.9 of Section C**. | The insurance and non-financial subsidiaries / joint ventures / associates etc. of a bank **should not** be consolidated for the purpose of capital adequacy. The equity and other regulatory capital investments in the insurance and non-financial subsidiaries will be deducted from consolidated regulatory capital of the group. Equity and other regulatory capital investments in the unconsolidated insurance and non-financial entities of banks (which also include joint ventures / associates of the parent bank) will be treated in terms of **paragraph 4.9 of Section C,** ***Annex 1*** *and* ***paragraph 1.4 of Annex 2*** *respectively.* |
| 3 | **Annex 1, Section C, Para 4.6.(i)** | |
| | **…** Accordingly, under Basel III, banks | **…** Accordingly, under Basel III, banks |

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| | are required to derecognise in the calculation of Common Equity Tier 1 capital, all unrealised gains and losses which have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk. If a bank values its derivatives and securities financing transactions (SFTs) liabilities taking into account its own creditworthiness in the form of debit valuation adjustments (DVAs), then **…** | are required to derecognise in the calculation of Common Equity Tier 1 capital, all unrealised gains and losses which have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk. <u>*In addition, with regard to derivative liabilities, derecognise all accounting valuation adjustments arising from the bank's own credit risk. The offsetting between valuation adjustments arising from the bank's own credit risk and those arising from its counterparties' credit risk is not allowed.*</u> If a bank values its derivatives and securities financing transactions (SFTs) liabilities taking into account its own creditworthiness in the form of debit valuation adjustments (DVAs), then **…** |
| 4 | **Annex 1, Section C, Para 4.9.2.2.(iv)** | |
| | Investments below the threshold of 10% of bank's Common Equity, which are not deducted, will be risk weighted. Thus, instruments in the trading book will be treated as per the market risk rules and instruments in the banking book should be treated as per the standardised approach or internal ratings-based approach (as applicable). For the application of risk weighting the amount of the holdings which are required to be risk weighted would be allocated on a pro rata basis between the Banking and Trading Book. ~~Such investments in case of non-scheduled commercial banks having negative CRAR will be fully deducted from Common Equity Tier 1 capital of investing bank.~~ | Investments below the threshold of 10% of bank's Common Equity, which are not deducted, will be risk weighted. Thus, instruments in the trading book will be treated as per the market risk rules and instruments in the banking book should be treated as per the standardised approach or internal ratings-based approach (as applicable). For the application of risk weighting the amount of the holdings which are required to be risk weighted would be allocated on a pro rata basis between the Banking and Trading Book. <u>*However, in certain cases, such investments in both scheduled and non-scheduled commercial banks will be fully deducted from Common Equity Tier 1 capital of investing bank as indicated in paragraphs 1.1 and 5 of Annex 2.*</u> |
| 5 | **Annex 1, Section C, Para 4.9.2.3.(iii)** | |
| | **Investments which are Common** | **Investments which are Common** |

| | | |
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| | **Shares**<br>All investments included in para (i) above which are common shares and which exceed 10% of the bank's Common Equity (after the application of all regulatory adjustments) will be deducted while calculating Common Equity Tier 1 capital. The amount that is not deducted (upto 10% if bank's common equity invested in the equity capital of such entities) in the calculation of Common Equity Tier 1 will be risk weighted at 250% (please refer to illustration given in Appendix 9). ~~Such investments in common shares of scheduled commercial banks having negative CRAR will be deducted from Common Equity Tier 1 capital. Similar investments in case of non-scheduled commercial banks having CRAR less than 3% will also be deducted from Common Equity Tier 1 capital.~~ | **Shares**<br>All investments included in para (i) above which are common shares and which exceed 10% of the bank's Common Equity (after the application of all regulatory adjustments) will be deducted while calculating Common Equity Tier 1 capital. The amount that is not deducted (upto 10% if bank's common equity invested in the equity capital of such entities) in the calculation of Common Equity Tier 1 will be risk weighted at 250% (please refer to illustration given in Appendix 9). *However, in certain cases, such investments in both scheduled and non-scheduled commercial banks will be fully deducted from Common Equity Tier 1 capital of investing bank as indicated in paragraphs 1.1 and 5 of Annex 2.* |
| 6 | **Annex 1, Section E** | |
| | **Para 6.4.2**<br>If the non-common equity regulatory capital instrument has been issued between September 12, 2010 and ~~January 1, 2013~~[25], then the treatment indicated … | **Para 6.4.2**<br>If the non-common equity regulatory capital instrument has been issued between September 12, 2010 and *December 31, 2012*[25], then the treatment indicated … |
| | **Para 6.4.2.3**<br>If such ~~instrument does not~~ meet all the criteria except the non-viability criteria, then… | **Para 6.4.2.3**<br>If such *instrument meets* all the criteria except the non-viability criteria, then… |
| | **Para 6.4.3**<br>Non-common equity regulatory capital instrument issued after January 1, 2013 must comply with all the eligibility criteria … | **Para 6.4.3**<br>Non-common equity regulatory capital instrument issued *on or* after January 1, 2013 must comply with all the eligibility criteria … |
| 7 | **Annex 2, Para 3.3** | |
| | … Accordingly, ~~para 7.5.5~~ of the Master Circular is revised as under:<br><br>**"~~7.5.5~~ Range of Eligible Guarantors (Counter-Guarantors)** | … Accordingly, *para 7.5.6* of the Master Circular is revised as under:<br><br>**"*7.5.6* Range of Eligible Guarantors (Counter-Guarantors)** |

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| | Credit protection given by the following entities will be … | Credit protection given by the following entities will be … |
| 8 | **Annex 2**<br>• *Table 4 of Para 1.1: Claims on Banks*<br>• *Tables 16 (Part C), 16 (Part D) of para 5.1: Capital change for bank's investments in the bonds issued by other banks*<br>• *Para 5.2: Specific risk charge for bank's investments in the equity of other bank* | |
| | **Clarification:**<br>In respect of above tables / paragraph, for the purpose of computation of Basel III capital ratios, the risk weights / capital charges may be arrived at based on the existing tables/paragraph as contained in the Master Circular DBOD.No.BP.BC.16/21.06.001/2012-13 dated July 2, 2012 on Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework till such time banks have disclosed their Basel III capital ratios. | |
| 9 | **Annex 4, Para 2** | |
| | **A sub-para 2.1.1 is added to existing para 2.1**<br><br>*2.1.1 Basel III minimum capital conservation standards apply with reference to the applicable minimum CET1 capital and applicable CCB. Therefore, during the Basel III transition period, banks may refer to the following table for meeting the minimum capital conservation ratios at various levels of the Common Equity Tier 1 capital ratios:* | |

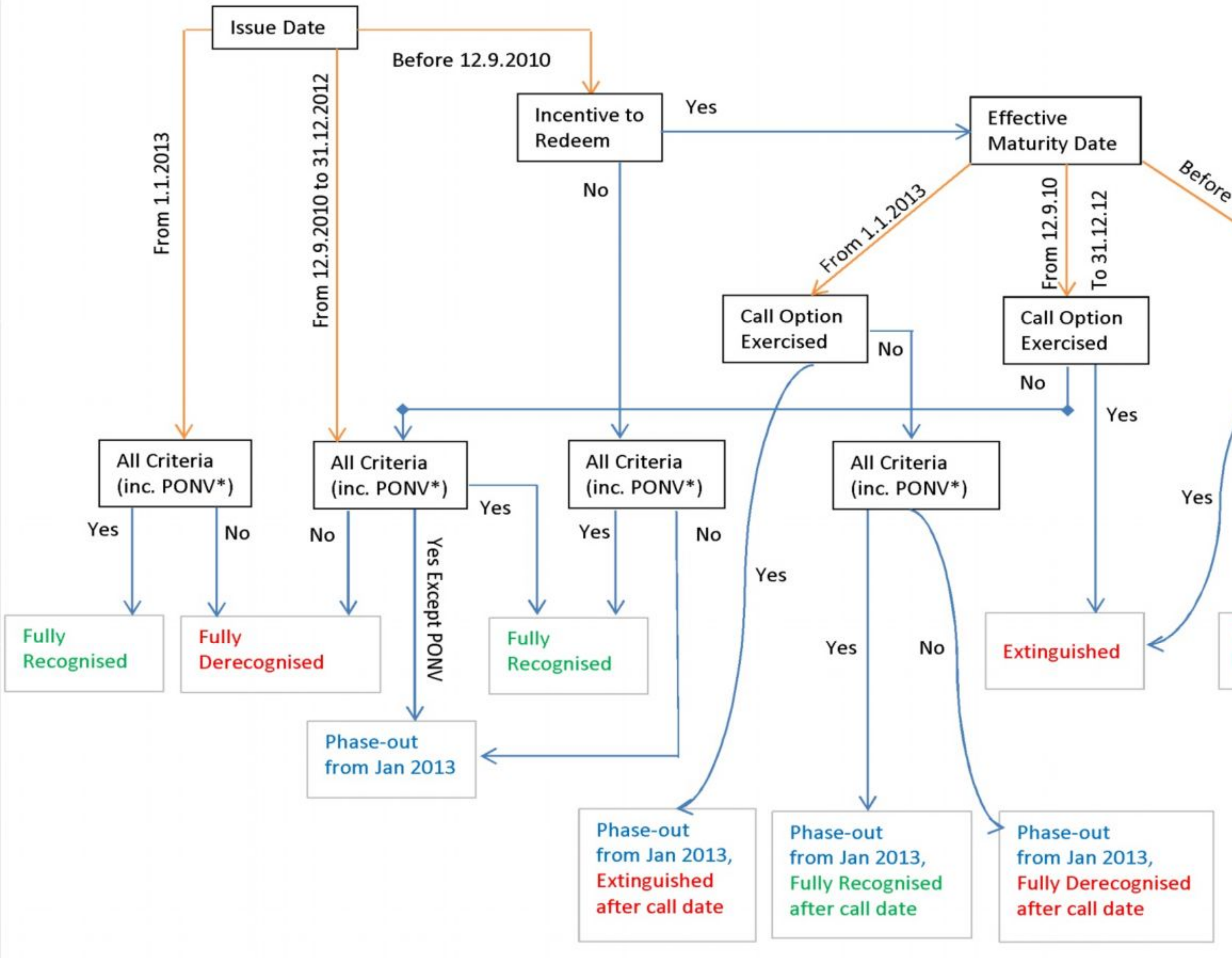
| Minimum capital conservation standards for individual bank | | | |
|---|---|---|---|
| Common Equity Tier 1 Ratio after including the current periods retained earnings | | | Minimum Capital Conservation Ratios (expressed as % of earnings) |
| As on March 31, 2015 | As on March 31, 2016 | As on March 31, 2017 | |
| 5.5% - 5.65625% | 5.5% - 5.8125% | 5.5% - 5.96875% | 100% |
| >5.65625% - 5.8125% | >5.8125% - 6.125% | >5.96875% - 6.4375% | 80% |
| >5.8125% - 5.96875% | >6.125% - 6.4375% | >6.4375% - 6.90625% | 60% |
| >5.96875% - 6.125% | >6.4375% - 6.75% | >6.90625% - 7.375% | 40% |
| >6.125% | >6.75% | >7.375% | 0% |

| | | |
|---|---|---|
| 10 | **Annex 5, Para 3.3** | |
| | … banks should report their Tier 1 leverage ratio to the RBI (Department of Banking Operations and Development) along with detailed calculations of capital and exposure measures on a quarterly basis from the quarter ending | … banks should report their Tier 1 leverage ratio to the RBI (Department of Banking Operations and Development) along with detailed calculations of capital and exposure measures on a quarterly basis from the quarter ending *June 30, 2013.* |

| | | |
|---|---|---|
| | ~~December 31, 2012~~. | |
| 11 | **Appendix 1, Caption of the Table** | |
| | Capital Ratios ~~in the year 2018~~ | Capital Ratios *as on March 31, 2018* |
| 12 | **Appendix 12**<br>The bullet numbers in the para 2.6 should be read as (i) to (v) instead of (ix) to (xiii). | |
| 13 | **Appendix 13**<br>A Modified Chart for ‘Transitional Arrangements for Non-Equity Regulatory Capital Instruments’ is enclosed with this Annex. | |

**APPENDIX 13**

## TRANSITIONAL ARRANGEMENTS FOR NON-EQUITY REGULATORY CAPITAL INSTRUMENTS #




# Pls refer to paragraph 6.4, Section E of Annex 1

* PONV refers to point of non-viability