

Asset-Liability Management Guidelines for NBFCs: Applicability to Primary Dealers

IDMC.PDRS.No. 3330 /03.64.00/2001-02

January 12, 2002

To All Primary Dealers

Dear Sir,

Asset-Liability Management Guidelines for NBFCs: Applicability to Primary Dealers

Please refer to the circular ref. DNBS(PD)CC.No.15/02.01/2000-01 dated the June 27, 2001 issued by our Department of Non-Banking Supervision (DNBS) on the above subject. In view of the special nature of business of Primary Dealers (PDs), the above instructions have been modified to the extent necessary. Accordingly, the following instructions are issued for implementation by PDs.

2. The functions of the Asset Liability Committee (ALCO), which has been prescribed in the circular, may be handled by the existing Risk Management/ Investment/ Trading or any similar Committee. However, the composition of the Committee should be in line with that suggested for ALCO.

3. Liquidity Risk Management: NBFCs have been given the option of following instructions contained in paragraph 7.3 or 7.4 for measuring and managing their liquidity risk. PDs are traders in securities. Therefore, they may follow the provisions of paragraph 7.4. As regards, Government securities portfolio, the entire holding may be treated as liquid and put in the first time bucket as these are eligible for repos under Liquidity Adjustment Facility. The non-Government securities portfolio may be treated as trading to the extent that the holding period and defeasance period stipulations can be satisfied. The balance will have to be treated as investment.

4. Interest rate Risk Management: A simple maturity/ repricing gap method has been suggested in the circular under reference for measurement of interest rate risk. Since most of the PDs have more sophisticated Duration Gap, Price Value of a Basis Point (PVBP), Daily Earnings at Risk (DEaR) and Value at Risk (VaR) based measures for interest rate risk, they may continue with their existing systems. The reporting is covered in the quarterly statement PDR III which gives the calculation for regulatory capital and includes market risk calculation. Annexure III of the DNBS circular under reference need not be submitted.

5. The returns prescribed in Annexures I and II of the DNBS circular may be submitted within the time frame indicated with a copy to Internal Debt Management Cell.

6. All other provisions of the DNBS circular under reference will apply to the PDs as prescribed.

Please acknowledge receipt.

Yours faithfully,

(H. R. Khan)
Chief General Manager