भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2011-12/321

DBOD.No.BP.BC. 69 /21.06.001/2011-12 December 27, 2011

The Chairman and Managing Directors/
Chief Executive Officers of
All Scheduled Commercial Banks
(Excluding RRBs and LABs)

Dear Sir,

Capital Requirement for banks' investments in financial entities <u>exempted from Capital Market Exposure</u>

Please refer to paragraph 5.13.4 of our Master Circular No. DBOD.No.BP.BC.11/ 21.06.001/2010-11 dated July 1, 2011 on Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF), as per which capital market exposure will attract a 125 percent risk weight or risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher. However, in terms of paragraph 5.13.7 of the said circular, the investment in paid up equity of financial entities, which are specifically exempted from 'capital market exposure' (CME), shall be assigned a 100 percent risk weight.

2. The matter has been reviewed and it has been decided that the risk weight and capital requirement should be linked to risk characteristics of the investment, irrespective of whether they are exempted from CME or not. Therefore, banks' investments in paid up equity of financial entities, even if they are exempted from CME norms, will henceforth be assigned a 125 percent risk weight or risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher, as prescribed in paragraph 5.13.4 of the above mentioned circular.

3. Accordingly, banks' capital market investments in banking book, including those exempted from CME norms, will attract risk weight of 125 percent (i.e. 11.25 percent of capital charge on gross equity position) or as per the risk weight

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warranted by external rating (or lack of it) of the counterparty, whichever is higher. However, if such investments are in trading book, they will attract capital charge of 20.25 percent or higher [i.e. capital charge towards specific risk at 11.25 percent or as per the risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher and general market risk at 9 percent of gross equity position].

4. This instruction will be applicable from January 1, 2012.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in-Charge

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