

Availment of FCNR(B) Loans by Primary Dealers (PDs)

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To

All Primary Dealers in the Government Securities Market

Dear Sirs,

Availment of FCNR(B) Loans by Primary Dealers (PDs)

A few PDs have been approaching us to avail of FCNR (B) loans for funding their operations. It has been decided to allow PDs to avail of FCNR(B) loans subject to the foreign exchange risk of such loans being hedged at all times at least to the extent of 50 per cent of the exposure. In addition, the PDs should ensure the compliance of the following conditions.

- I. The total outstanding FCNR(B) loans availed of by a PD should not exceed 25 per cent of its net owned funds (NOF) as per the latest audited financial accounts.
- II. Primary Dealers should maintain additional capital at 15 per cent towards (a) the market risk in un-hedged foreign currency exposure taking risk weight at 100% of the total open position; and (b) the credit risk exposure, in respect of outstanding forward foreign exchange contracts at 100% risk weight. The credit risk exposure in respect of the outstanding forward exchange contracts will be determined by applying credit conversion factors as indicated below:

<u>Original Maturity of the contract</u>	<u>Credit conversion factor</u>
(i) upto one year	2 per cent
ii) for each additional year or a part thereof	3 per cent

The credit risk exposure so arrived at may be added to the total risk weighted assets for credit risk as per the section A of the Capital Adequacy Standards for Primary Dealers.

2. It may please be noted that PDs should not raise funds through External Commercial Borrowings without specific prior approval of RBI.
3. Revised PDR-III format is enclosed. PDs may submit the information in the revised format from the quarter ending March 2003.
4. Consequential amendments to the "Capital Adequacy Standards for Primary Dealers" are being carried out and will be advised to you in due course.
5. Please acknowledge receipt.

Yours faithfully,

(Usha Thorat)

Chief General Manager-in-Charge