All Scheduled Commercial Banks (excluding RRBs / LABs)

Dear Sir,

## Bills discounted under LC - Risk Weight and Exposure Norms

Please refer to our circular DBOD.Dir.BC.62/13.07.09/2002-2003 dated January 24, 2003. In terms of para 2(iv) of the circular, the credit exposure on account of bills purchased / discounted / negotiated under LCs or otherwise should be reckoned on the bank's borrower constituent. Accordingly, the exposure should attract a risk weight appropriate to the borrower constituent (viz. 100% for firms, individuals, corporate, etc.) for capital adequacy purposes.

- 2. The above instructions have been reviewed and it has now been decided that:
- (i) Bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower.
- (ii) All clean negotiations as indicated above in para (i) above, will be assigned the risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes.
- (iii) In the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.
- 3. The above guidelines will come into operation with immediate effect.

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge