RBI/2008-09/176

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September 17, 2008

The Chief Executive Officer of all
Scheduled Primary (Urban) Co-operative Banks.

Dear Sir/Madam

Guidelines on Asset-Liability Management (ALM) System –
Amendments-Scheduled UCBs

As you are aware, Reserve Bank had issued guidelines on ALM system vide circular dated April 15, 2002 which covered, among others, interest rate risk and liquidity risk measurement/reporting framework and prudential limits. Further vide circular UBD.CO.BPD.SPCB.No.8/12.05.001/06-07 dated June1, 2007 banks were advised to submit the Structural Liquidity statement and Interest Rate Sensitivity statement through the ALM Module provided in the OSS software. As a measure of liquidity management, banks are required to monitor their cumulative mismatches across all time buckets in their Statement of Structural Liquidity by establishing internal prudential limits with the approval of the Board / ALCO. As per the guidelines, the mismatches (negative gap) during the time buckets of 1-14 days and 15-28 days in the normal course, are not to exceed 20 per cent of the cash outflows in the respective time buckets.

2. In this regard, it is advised that a need is felt to have a sharper assessment of the efficacy of liquidity management. The guidelines have therefore, been reviewed and it has been decided that:

(a) the banks may adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days at present) in the Statement of Structural Liquidity into three time buckets viz. Next day, 2-7 days and 8-14 days.

(b) the Statement of Structural Liquidity may be compiled on best available data coverage, in due consideration of non-availability of a fully networked environment. Banks may, however, make concerted and requisite efforts to ensure coverage of 100 per cent data in a timely manner.

(c) the net cumulative negative mismatches during the Next day, 2-7 days, 8-14 days and 15-28 days buckets should not exceed 5 % ,10%, 15 % and 20 % of the cumulative cash outflows in the respective time buckets in order to recognize the cumulative impact on liquidity.

(d) banks may undertake dynamic liquidity management and should prepare the Statement of Structural Liquidity on daily basis to Top Management / ALCO. The Statement of Structural Liquidity, may, however, be reported to RBI as hitherto, ie., at fortnightly intervals within 10 days of the last reporting Friday.

3. The format of Statement of Structural Liquidity has been revised suitably and is furnished at Annex I. The guidance for slotting the future cash flows of banks in the revised time buckets has also been suitably modified and is furnished at Annex II. The format of the Statement of Short-term Dynamic Liquidity may also be amended on the above lines . This statement of Short-term Dynamic Liquidity should also be prepared on a daily basis and put up to the ALCO / Top Management within 2 / 3 days from the close of the reporting Friday.

4. To enable the banks to fine tune their existing MIS as per the modified guidelines, the revised norms as well as the supervisory reporting as per the revised format would commence with effect from the period beginning January 1, 2009.

5. It may be noted that there has been no change in the Interest Rate Sensitivity statement which may continue to be prepared on a monthly basis as on the last reporting Friday of the month and submitted to RBI within 3 weeks from the end of the reporting period.

6. Please acknowledge receipt to the regional office concerned.

Yours faithfully,

(A.K Khound)
Chief General Manager-in-Charge

Annex – II

Guidance for Slotting the Future Cash Flows of Banks <u>in the Revised Time Buckets</u>

	Heads of Accounts	**Classification into time buckets**
A.	**Outflows**	
1.	Capital, Reserves and Surplus	Over 5 years bucket.
2.	Demand Deposits (Current and Savings Bank Deposits)	Savings Bank and Current Deposits may be classified into volatile and core portions. Generally 10 % of Savings Bank and 15 % of Current Deposits are generally withdrawable on demand. This portion may be treated as volatile. While volatile portion can be placed in the Day 1, 2-7 days and 8-14 days time buckets, depending upon the experience and estimates of banks and the core portion may be placed in over 1- 3 years bucket.
		The above classification of Savings Bank and Current Deposits is only a benchmark. Banks which are better equipped to estimate the behavioural pattern, roll-in and roll-out, embedded options, etc. on the basis of past data / empirical studies could classify them in the appropriate buckets, i.e. **behavioural** maturity instead of **contractual** maturity, subject to the approval of the Board / ALCO.
3.	Term Deposits **,** Long Term Deposits (Tier II).	Respective maturity buckets. Banks which are better equipped to estimate the behavioural pattern, roll-in and roll-out, embedded options, etc. on the basis of past data / empirical studies could classify the retail deposits in the appropriate buckets on the basis of behavioural maturity rather than residual maturity. However, the wholesale deposits should be shown under respective maturity buckets. (wholesale deposits for the purpose of this statement may be Rs 15 lakhs or any such higher threshold approved by the bank's Board).
4.	Certificates of Deposit, Borrowings and Bonds (including Sub-ordinated Debt **if any)**	Respective maturity buckets. Where call / put options are built into the issue structure of any instrument/s, the call / put date/s should be reckoned as the maturity date/s and the amount should be shown in the respective time buckets.
5.	**Other Liabilities and Provisions**	
	(i) Bills Payable	(i) The core component which could reasonably be estimated on the basis of past data and behavioural pattern may be shown under 'Over 1-3 years' time bucket. The balance amount may be placed in Day 1, 2- 7 days and 8-14 days buckets, as per behavioural pattern.
	(ii) Provisions other than for loan loss and depreciation in investments	(ii) Respective buckets depending on the purpose.
	(iii) Other Liabilities	(iii) Respective maturity buckets. Items not representing cash payables (i.e. income received in advance, etc.) may be placed in over 5 years bucket.
6.	Export Refinance - Availed	Respective maturity buckets of underlying assets.
B.	**Inflows**	
1.	Cash	Day 1 bucket

2.	Balances with RBI / Public sector banks and SCBs and DCCBs for CRR/SLR purpose		While the excess balance over the required CRR / SLR may be shown under Day 1 bucket, the Statutory Balances may be distributed amongst various time buckets corresponding to the maturity profile of DTL with a time-lag of 14 days.
3.	**Balances with other Banks**		
	(i)	Current Account	(i) Non-withdrawable portion on account of stipulations of minimum balances may be shown under 'Over 1-3 years' bucket and the remaining balances may be shown under Day 1 bucket.
	(ii)	Money at Call and Short Notice, Term Deposits, Long Term deposits (Tier II) , and other placements	(ii) Respective maturity buckets.
4.	**Investments (Net of provisions)**#		
	(i)	Approved securities	(i) Respective maturity buckets, excluding the amount required to be reinvested to maintain SLR corresponding to the DTL profile in various time buckets.
	(ii)	Corporate debentures and bonds, PSU bonds, CDs and CPs, Redeemable preference shares, eligible units of Mutual Funds (close ended), etc.	(ii) Respective maturity buckets. Investments classified as NPIs should be shown under over 3-5 years bucket (sub-standard) or over 5 years bucket (doubtful).
	(iii)	Equity of all India FIs and Co-operative	(iii) Listed shares in 2-7days bucket, with a haircut of 50%. Other shares in 'Over 5 years' bucket.
	(iv)	Units of Mutual Funds (open ended)	(iv) Day 1 bucket
	(v)	Investments in Subsidiaries	(v) 'Over 5 years' bucket.
	(vi)	Securities in the Trading Book	(vi) Day 1, 2-7 days, 8-14 days, 15-28 days and 29-90 days according to defeasance periods.
	#	Provisions may be netted from the gross investments provided provisions are held security-wise. Otherwise provisions should be shown in over 5 years bucket.	
5.	**Advances (Performing)**		
	(i)	Bills Purchased and Discounted (including bills under DUPN)	(i) Respective maturity buckets.
	(ii)	Cash Credit / Overdraft (including TOD) and Demand Loan component of Working Capital.	(ii) Banks should undertake a study of behavioural and seasonal pattern of availments based on outstandings and the core and volatile portion should be identified. While the volatile portion could be shown in the near-term maturity buckets, the core portion may be shown under 'Over 1-3 years' bucket.
	(iii)	Term Loans	(iii) Interim cash flows may be shown under respective maturity buckets.
6.	**NPAs (Net of provisions, interest suspense and claims received from ECGC / DICGC)**		
	(i)	Sub-standard	(i) Over 3-5 years bucket.
	(ii)	Doubtful and Loss	(ii) Over 5 years bucket.
7.	**Fixed Assets / Assets on lease**		'Over 5 years' bucket / Interim cash flows may be shown under respective maturity buckets.
8.	**Other Assets**		
	(i)	Intangible assets	Intangible assets and assets not representing cash receivables may be shown in 'Over 5 years' bucket.
C.	**Off balance sheet items**		
1.	**Lines of Credit committed / available**		

	(i)	Lines of Credit committed to / from Institutions	(i) Day 1 bucket.
	(ii)	Unavailed portion of Cash Credit / Overdraft / Demand loan component of Working Capital limits (outflow)	(ii) Banks should undertake a study of the behavioural and seasonal pattern of potential availments in the accounts and the amounts so arrived at may be shown under relevant maturity buckets upto 12 months.
	(iii)	Export Refinance - Unavailed (inflow)	(iii) Day 1 bucket.
2.	**Contingent Liabilities**		
	Letters of Credit / Guarantees (outflow)		Devolvement of Letters of Credit / Guarantees, initially entails cash outflows. Thus, historical trend analysis ought to be conducted on the devolvements and the amounts so arrived at in respect of outstanding Letters of Credit / Guarantees (net of margins) should be distributed amongst various time buckets. The assets created out of devolvements may be shown under respective maturity buckets on the basis of probable recovery dates.
3.	**Other Inflows / outflows**		
	(i)	Repos / Bills Rediscounted (DUPN) / CBLO / Swaps INR / USD, maturing forex forward contracts etc. (outflow / inflow)	(i) Respective maturity buckets.
	(ii)	Interest payable / receivable (outflow / inflow) - Accrued interest which are appearing in the books on the reporting day	(ii) Respective maturity buckets.
	Note :		
	(i)	Liability on account of event cash flows i.e. short fall in CRR balance on reporting Fridays, wage settlement, capital expenditure, etc. which are known to the banks and any other contingency may be shown under respective maturity buckets. The event cash outflows, including incremental SLR requirement should be reported against "Outflows - Others".	
	(ii)	All overdue liabilities may be placed in the Day 1, 2-7 days and 8-14 days buckets, based on behavioural estimates.	
	(iii)	Interest and instalments from advances and investments, which are overdue for less than one month may be placed in Day 1, 2-7 days and 8-14 days buckets, based on behavioural estimates. Further, interest and instalments due (before classification as NPAs) may be placed in '29 days to 3 months bucket' if the earlier receivables remain uncollected.	
D.	**Financing of Gap**		
	In case the net cumulative negative mismatches during the Day 1, 2-7 days, 8-14 days and 15- 28 days buckets exceed the prudential limit of 5 % ,10%, 15 % and 20% of the cumulative cash outflows in the respective time buckets, the bank may show by way of a foot note as to how it proposes to finance the gap to bring the mismatch within the prescribed limits. The gap can be financed from market borrowings (call / term), Bills Rediscounting, Repos , LAF and deployment of foreign currency resources after conversion into rupees (unswapped foreign currency funds), etc.		