

October 29, 2008

All Scheduled Commercial Banks (excluding RRBs and LABs)
and All-India Term Lending and Refinancing Institutions

Dear Sirs,

Prudential Norms for Off-balance Sheet Exposures of Banks

Please refer to our circular DBOD.No.BP.BC.57 / 21.04.157 / 2008 – 09 October 13, 2008 on the captioned subject.

2. In terms of para 2.1 (i) of the aforesaid Circular, any receivable representing positive mark-to-market value of a derivative contract, if overdue for a period of 90 days or more, is required to be treated as non-performing asset and also makes all other funded facilities granted to the client as non-performing asset, following the principle of borrower-wise classification.

3. On a review of the matter, it has now been decided to confine the applicability of the principle of borrower-wise asset classification to only the overdues arising from forward contracts and plain vanilla swaps and options. Accordingly, any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2007 to June 2008, which has already crystallised or might crystallise in future and is / becomes receivable from the client, should be parked in a separate account maintained in the name of the client / counterparty. This amount, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more shall itself be classified as NPA, as per the extant IRAC norms. The classification of all other assets of such clients will, however, continue to be governed by the extant IRAC norms.

4. These relaxations will also be applicable to the foreign branches of Indian banks. All other instructions contained in the aforesaid Circular of October 13, 2008 remain unchanged.

Yours faithfully,

(Prashant Saran)
Chief General Manager-In-Charge