

Monetary and Credit Policy Measures

BP.BC. 121 /21.04.124/99

November 3, 1999

All commercial banks (excluding RRBs)

Dear Sir,

Monetary and Credit Policy Measures

Please refer to Governor's letter No.MPD.BC.190/07.01.279/99-2000 dated October 29, 1999 enclosing a copy of the Statement on "Mid-Term Review of Monetary and Credit Policy for the Year 1999-2000". The guidelines in regard to **prudential norms** in terms of paragraph 45 of the Statement are given below :

i) Risk weight on non-SLR securities

In terms of circular DBOD.No.BP.BC.103/21.01.002/98 dated October 31, 1998, investments in Government and other approved securities have been assigned a risk weight of 2.5 per cent for market risk with effect from the year ending March 31, 2000. **It has now been decided that banks' investments in all securities including securities outside SLR, should be assigned a risk weight of 2.5 per cent for market risk with effect from the year ending March 31, 2001.** This will also be applicable to investments in securities carrying 100% risk weight since in line with best practices, some capital cushion should also be provided for market risk in addition to credit risk.

ii) Limits on credit exposure to individual borrowers

In terms of Circular DBOD.No.BP.BC.132/66-89 dated May 26, 1989, the ceiling on a bank's exposure to an individual borrower has been fixed at 25 per cent of the bank's capital funds. **With a view to moving closer to the international standard of 15 per cent, in phases, it has been decided to lower the exposure ceiling in respect of an individual borrower from the present level of 25 per cent to 20 per cent of the bank's capital funds effective April 1, 2000.** Banks are advised that where the existing level of exposure as on October 31, 1999, is more than 20 per cent, they should reduce the exposure to 20 per cent of capital funds over a two year period (i.e. by end October, 2001).

The other terms and conditions indicated in the circular of May 26, 1989 will remain unchanged.

Please acknowledge receipt.

Yours faithfully,

(A.L. Narasimhan)
Chief General Manager