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The Chairman and Managing Director/
Chief Executives Officer of
All Scheduled Commercial Banks
(Excluding Regional Rural Banks)

Madam/Dear Sir,

Guidelines for implementation of Countercyclical Capital Buffer (CCCB)

The Internal Working Group of the Reserve Bank of India under the Chairmanship of Shri B Mahapatra had submitted the final Report on the implementation of Countercyclical Capital Buffer (CCCB) in July, 2014. The Report made recommendations in areas such as indicators that may be used for CCCB decisions, thresholds for activating the buffer, lead time for announcement of buffer, etc.

The final guidelines for implementation of CCCB in India are annexed. While the framework for CCCB takes immediate effect, the activation of CCCB will take place when circumstances warrant. Currently, circumstances do not warrant activation.

Yours faithfully,

(Sudarshan Sen)
Chief General Manager-in-Charge

Department of Banking Regulation, Central Office, 12th Floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai - 400001
Tel No: 91-22-2270 5688 Fax No: 91-22-2270 5691 Email ID: cgmicdbr@rbi.org.in

Annex

Guidelines for implementation of Countercyclical Capital Buffer (CCCB)

1. The aim of the Countercyclical Capital Buffer (CCCB) regime is twofold. Firstly, it requires banks to build up a buffer of capital in good times which may be used to maintain flow of credit to the real sector in difficult times. Secondly, it achieves the broader macro-prudential goal of restricting the banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk.

2. The CCCB may be maintained in the form of Common Equity Tier 1 (CET 1) capital or other fully loss absorbing capital only, and the amount of the CCCB may vary from 0 to 2.5% of total risk weighted assets (RWA) of the banks. If, as per the Reserve Bank of India directives, banks are required to hold CCCB at a given point in time, the same may be disclosed at table DF-11 of Annex 18 as indicated in Basel III Master Circular.

3. The CCCB decision would normally be pre-announced with a lead time of 4 quarters. However, depending on the CCCB indicators, the banks may be advised to build up requisite buffer in a shorter span of time.

4. The credit-to-GDP gap[1] shall be the main indicator in the CCCB framework in India. However, it shall not be the only reference point and shall be used in conjunction with GNPA growth. The Reserve Bank of India shall also look at other supplementary indicators for CCCB decision such as incremental C-D ratio for a moving period of three years (along with its correlation with credit-to-GDP gap and GNPA growth), Industry Outlook (IO) assessment index (along with its correlation with GNPA growth) and interest coverage ratio (along with its correlation with credit-to-GDP gap). While taking the final decision on CCCB, the Reserve Bank of India may use its discretion to use all or some of the indicators along with the credit-to-GDP gap.

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[1] Credit-to-GDP gap is the difference between credit-to-GDP ratio and the long term trend value of credit-to-GDP ratio at any point in time.

5. The CCCB framework shall have two thresholds, viz., lower threshold and upper threshold, with respect to credit-to-GDP gap.

a. The lower threshold (L) of the credit-to-GDP gap where the CCCB is activated shall be set at 3 percentage points, provided its relationship with GNPA remains significant. The buffer activation decision will also depend upon other supplementary indicators as detailed in paragraph 4.

b. The upper threshold (H) where the CCCB reaches its maximum shall be kept at 15 percentage points of the credit-to-GDP gap. Once the upper threshold of the credit-to-GDP gap is reached, the CCCB shall remain at its maximum value of 2.5 per cent of RWA, till the time a withdrawal is signalled by the Reserve Bank of India.

c. In between 3 and 15 percentage points of credit-to-GDP gap, the CCCB shall increase gradually from 0 to 2.5 per cent of the RWA of the bank but the rate of increase would be different based on the level/position[2] of credit-to-GDP gap between 3 and 15 percentage points. If the credit-to-GDP gap is below 3 percentage points then there will not be any CCCB requirement.

6. The same set of indicators that are used for activating CCCB (as mentioned in paragraph 4) may be used to arrive at the decision for the release phase of the CCCB. However, discretion shall be with the Reserve Bank of India for operating the release phase of CCCB. Further, the entire CCCB accumulated may be released at a single point in time but the use of the same by banks will not be unfettered and will need to be decided only after discussion with the Reserve Bank of India.

7. For all banks operating in India, CCCB shall be maintained on a solo basis as well as on consolidated basis.

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[2] The CCCB requirement shall increase linearly from 0 to 20 basis points when credit-to-GDP gap moves from 3 to 7 percentage points. Similarly, for above 7 and up to 11 percentage points range of credit-to-GDP gap, CCCB requirement shall increase linearly from above 20 to 90 basis points. Finally, for above 11 and up to 15 percentage points range of credit-to-GDP gap, the CCCB requirement shall increase linearly from above 90 to 250 basis points. However, if the credit-to-GDP gap exceeds 15 percentage points, the buffer shall remain at 2.5 per cent of the RWA.

8. All banks operating in India (both foreign and domestic banks) should maintain capital for Indian operations under CCCB framework based on their exposures in India.

9. Banks incorporated in India having international presence have to maintain adequate capital under CCCB as prescribed by the host supervisors in respective jurisdictions. The banks, based on the geographic location of their RWA, shall calculate their bank specific CCCB requirement as a weighted[3] average of the requirements that are being applied in respective jurisdictions. The Reserve Bank of India may also ask Indian banks to keep excess capital under CCCB framework for exposures in any of the host countries they are operating if it feels the CCCB requirement in host country is not adequate.

10. Banks will be subject to restrictions on discretionary distributions (may include dividend payments, share buybacks and staff bonus payments) if they do not meet the requirement on countercyclical capital buffer which is an extension of the requirement for capital conservation buffer (CCB). Assuming a concurrent requirement of CCB of 2.5% and CCCB of 2.5% of total RWAs, the required conservation ratio (restriction on discretionary distribution) of a bank, at various levels of CET1 capital held is illustrated in Table-1.

Table 1: Individual bank minimum capital conservation ratios, assuming a requirement of 2.5% each of capital conservation buffer and CCCB	
Common Equity Tier 1 Ratio bands	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
>5.5% - 6.75%	100%
>6.75% - 8.0%	80%
>8.0% - 9.25%	60%
>9.25% - 10.50%	40%
>10.50%	0%

[3] Weight = (bank's total RWA in a jurisdiction)/ (bank's total RWA across all jurisdictions).

The CET 1 ratio bands are structured in increments of 25% of the required CCB and CCCB prescribed by the Reserve Bank of India at that point in time[4]. A separate illustrative table is given at Appendix 1 with an assumption of CCCB requirement at 1%.

11. Banks must ensure that their CCCB requirements are calculated and publicly disclosed with at least the same frequency as their minimum capital requirements as applicable in various jurisdictions. The buffer should be based on the latest relevant jurisdictional CCCB requirements that are applicable on the date that they calculate their minimum capital requirement. In addition, when disclosing their buffer requirement, banks must also disclose the geographic breakdown of their RWAs used in the calculation of the buffer requirement.

12. The CCCB decisions may form a part of the first bi-monthly monetary policy statement of the Reserve Bank of India for the year. However, more frequent communications in this regard may be made by the Reserve Bank of India, if warranted by changes in economic conditions.

13. The indicators and thresholds for CCCB decisions mentioned above shall be subject to continuous review and empirical testing for their usefulness and other indicators may also be used by the Reserve Bank of India to support CCCB decisions.

[4] First CET 1 ratio band = Minimum CET 1 ratio + 25% of CCB + 25% of applicable CCCB. For subsequent bands, starting point will be the upper limit of previous band. However, it may be mentioned that CET 1 ratio band may change depending on various capital/buffer requirements (e.g. D-SIB buffer) as prescribed by the Reserve Bank of India from time to time. Accordingly, lower and upper values of the bands as given in Table-1 will undergo changes.

Appendix 1

Individual bank minimum capital conservation standards, when a bank is subject to a 2.5% CCB and 1% CCCB	
Common Equity Tier 1 Ratio bands	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
> 5.5% - 6.375%*	100%
> 6.375% - 7.25%	80%
> 7.25% - 8.125%	60%
> 8.125% - 9.00%	40%
> 9.00%	0%

As the total requirement of CCB and CCCB is 2.5% and 1% respectively, at each band, 0.625% and 0.250% of RWA are being added for CCB and CCCB respectively.

*(6.375=5.50+0.625+0.250)