RESERVE BANK OF INDIA

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DBOD.BP.BC. No.134 /21.06.001/2008-09 **May 26, 2009**

The Chairman and Managing Directors/
Chief Executive Officers
All Scheduled Commercial Banks
(Excluding RRBs and LABs)

Dear Sir,

Capital Adequacy Norms for Banks' Exposures to Central Counterparties(CCPs)

Please refer to our Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of New Capital Adequacy Framework No. RBI/ 2008-09 /68.DBOD.No. BP.BC. 11 /21.06.001/2008-09 dated July 1, 2008.

2. Banks have been exposed to CCPs attached to stock exchanges while settling contracts like currency futures and interest rate futures. The Clearing Corporation of India Limited (CCIL) has also been acting as a Central Counter Party (CCP) for banks in various segments of the financial markets. In terms of para 5.15.3 (iv) (b) of the Master Circular, the instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments are exempted from the capital requirements

3. As indicated in paragraph 146 (extract reproduced in Annex) of the Annual Policy Statement for the year 2009-10, released on April 21, 2009, the revised norms for capital adequacy treatment of banks' various types of credit risk exposures to the CCPs will be as under:

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i) The exposures to CCPs on account of derivatives trading and securities financing transactions (e.g. CBLOs, Repos) outstanding against them, will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures;

ii) The deposits/collaterals kept by banks with the CCPs will attract risk weights appropriate to the nature of the CCP. In the case of CCIL, the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the New Capital Adequacy Framework.

4. The above prescriptions about the adequacy of margin, quality of collateral and risk management systems of the clearing house/CCP will be reviewed after one year.

5. All existing exposure limits, such as gap limits for forex exposures, PV01 limits for interest rate risk exposures which are applicable for OTC derivatives exposures of banks will continue to apply for exchange traded transactions as well.

Yours faithfully,

(P.Vijaya Bhaskar)
Chief General Manager

Extract from Annual Policy for 2009-10

Annex I

(g) Risk Weights for Exposure to Central Counterparties

145. A central counterparty (CCP) is an entity that interposes itself between counterparties to contracts traded within one or more financial markets, becoming the legal counterparty such that it is the buyer to every seller and the seller to every buyer. The CCIL has been acting as a CCP for banks in various segments of the financial market. Similarly, contracts like interest rate futures and currency futures, which are traded on the stock exchanges, are also settled through the clearing houses attached to these exchanges.

146. Banks settling trades through CCIL/stock exchanges have two types of exposures to these CCPs. First, on account of the on-balance sheet and off-balance sheet transactions undertaken through the CCP; and second, the exposure on account of deposits/collateral kept with the CCPs to meet the margin requirements. It has been decided to lay down the norms for capital adequacy treatment of such exposures. Accordingly:

- the exposures on account of derivatives/securities financing transactions trades outstanding against all the CCPs, will be assigned zero exposure value, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the central counterparty's credit risk exposures;
- the margin amounts/collaterals maintained with the CCPs will attract risk weights appropriate to the nature of the CCP. For CCIL, the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the New Capital Adequacy Framework.
- the above prescription will be subject to review on an on-going basis by the Reserve Bank about the adequacy of margin, quality of collateral and risk management systems of the clearing house/CCP.