भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2010-11/223
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All Scheduled Commercial Banks
(Excluding Local Area Banks and Regional Rural Banks)

Dear Sir,

Prudential Norms for Off-Balance Sheet Exposures of Banks –
Bilateral netting of counterparty credit exposures

As you are aware, in terms of our extant instructions issued vide our Master Circular – 'Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy', DBOD,No,.BP.BC.15 / 21.06.001 / 2010 - 11 dated July 1, 2010, banks have been advised to adopt 'Current Exposure Method' for estimating their credit equivalent amount for interest rate and foreign exchange derivative transactions and gold. The credit equivalent amount is used for the purposes of capital adequacy and exposure norms.

2. On receipt of requests from banks, the issue of allowing bilateral netting of counterparty credit exposures, in such derivative contracts, has been examined within the existing legal framework. Since the legal position regarding bilateral netting is not unambiguously clear, it has been decided that bilateral netting of mark-to-market (MTM) values arising on account of such derivative contracts cannot be permitted. Accordingly, banks should count their gross positive MTM value of such contracts for the purposes of capital adequacy as well as for exposure norms.

Yours faithfully,

(B Mahapatra)
Chief General Manager-in-Charge

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