भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2010-11/400

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All Public Sector Banks

Dear Sir,

Re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity limits - Prudential Regulatory Treatment

Consequent on the re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity limits following the amendment to Payment of Gratuity Act 1972, banks and the Indian Banks' Association (IBA) have approached us for the amortisation of the enhanced expenditure resulting therefrom.

2. The additional liability on account of re-opening of pension option for existing employees who had not opted for pension earlier as well as the enhancement in gratuity limits should be fully recognised and charged to Profit and Loss Account for the financial year 2010-11.

3. However, banks have expressed that it would be difficult to absorb the large amount involved in a single year. We have examined the issues from a regulatory perspective and it has been decided that banks may take the following course of action in the matter:

a) The expenditure, as indicated in paragraph 2 above, may, if not fully charged to the Profit and Loss Account during the financial year 2010-11, be amortised over a period of five years {subject to (b) and (c) below} beginning with the financial year ending March 31, 2011 subject to a minimum of $1/5^{th}$ of the total amount involved every year.

b) Consequent upon the introduction of International Financial Reporting Standards (IFRS) from April 1, 2013 for the banking industry as scheduled, the opening

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balance of reserves of banks will be reduced to the extent of the unamortised carry forward expenditure.

c) The unamortised expenditure carried forward as aforementioned shall not include any amounts relating to separated/retired employees.

4. Appropriate disclosures of the accounting policy followed in this regard may be made in the Notes to Accounts to the financial statements.

5. In view of the exceptional nature of the event, new pension option and enhanced gratuity related unamortised expenditure would not be reduced from Tier I capital.

6. Banks should keep in view 3(b) above while planning their capital augmentation, suitably factoring in Basel III requirements also (a separate circular would be issued on Basel III).

Yours faithfully

(P R Ravi Mohan)
Chief General Manager