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RESERVE BANK OF INDIA
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The Chairman and Managing Directors/ Chief Executive Officers of
All Scheduled Commercial Banks (excluding RRBs and LABs) &
All India Term-Lending & Refinancing Institutions

Dear Sir,

Prudential Norms for Off-balance Sheet Exposures of Banks

In terms of our circular DBOD.No.BP.BC.57/ 21.4.157/2008-09 dated October 13, 2008, the overdue receivables representing positive mark to market value of a derivative contract would be treated as a non-performing asset (NPA), if these remain unpaid for 90 days or more. In that case, all other funded facilities granted to the client should also be classified as NPA following the principle of borrower-wise classification as per the existing asset classification norms. As the overdue receivables would represent unrealised income already booked by the bank on accrual basis in the 'Profit and Loss Account', such amount should be reversed after 90 days of overdue period, and held in a '*Suspense Account-Crystalised Receivables*' in the same manner as done in the case of overdue advances.

2. It is further clarified that in cases where the derivative contracts provides for more settlements in future, the MTM value will comprise of **(a)** crystallised receivables and **(b)** positive or negative MTM in respect of future receivables. If the derivative contract is not terminated on the overdue receivable remaining unpaid for 90 days, in addition to reversing the crystallised receivable from Profit and Loss Account as stipulated in para 1 above, the positive MTM pertaining to future receivables may also be reversed from Profit and Loss Account to another account styled as *'Suspense Account – Positive MTM'.* The subsequent positive changes in the MTM value may be credited to the *'Suspense Account – Positive MTM',* not to P&L Account. The subsequent decline in

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MTM value may be adjusted against the balance in 'Suspense *Account – Positive MTM'.* If the balance in this account is not sufficient, the remaining amount may be debited to the P&L Account. On payment of the overdues in cash, the balance in the '*Suspense Account-Crystalised Receivables*' may be transferred to the 'Profit and Loss Account', to the extent payment is received.

3. If the bank has other derivative exposures on the borrower, it follows that the MTMs of other derivative exposures should also be dealt with / accounted for in the manner as described in para 2 above, subsequent to the crystalised/settlement amount in respect of a particular derivative transaction being treated as NPA.

4. Since the legal position regarding bilateral netting is not unambiguously clear, receivables and payables from/to the same counterparty including that relating to a single derivative contract should not be netted.

5. Similarly, in case a fund-based credit facility extended to a borrower is classified as NPA, the MTMs of all the derivative exposures should be treated in the manner discussed above.

6. These instructions will be applicable to both outstanding derivatives contracts and the derivatives transactions undertaken from the date of this circular.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in Charge