



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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June 18, 2013

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

Madam / Sir,

**Prudential Norms for Off-balance Sheet Exposures of Banks – Deferment of
Option Premium**

Banks are permitted to defer, at their discretion, the premium on plain vanilla options sold by them to users subject to certain conditions with effect from January 25, 2012¹. It has now been decided to extend this facility to cost reduction forex option structures in which the liability of the users never exceeds the net premium payable to the bank under any scenario. This facility would be subject to the following conditions:

- (i). Banks should carry out necessary due diligence with regard to the ability of users to adhere to the premium payment schedule, in accordance with their Board approved policy in this regard, before extending this facility to the users.
- (ii). Payment of premium for option structure with maturity of more than 1-year may be deferred, provided the premium payment period does not extend beyond the maturity date of the contract.
- (iii). The premium should be received uniformly over the maturity of the contract and the periodicity of such payment should be at least once in a quarter.
- (iv). This facility should not be allowed for the contracts which are on past performance basis.

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हिंदी आसान है, इसका प्रयोग बढ़ाएँ

2. Such option structures would continue to be governed by instructions (as amended from time to time) on

- Suitability and appropriateness as regards *structured derivative products* laid down in 'Comprehensive Guidelines on Derivatives: Modifications' dated November 2, 2011 issued by Department of Banking Operations and Development, RBI; and
- Cost Reduction Structures as laid down in Master Circular on 'Risk Management and Inter-Bank Dealings' dated July 2, 2012 issued by Foreign Exchange Department, RBI.

Yours faithfully,

(Chandan Sinha)
Principal Chief General Manager

¹ vide DBOD mailbox clarification dated January 25, 2012