

RBI/2008-09/376

DBOD.BP.BC.No.109/21.06.001/2008-09

February 5, 2009

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

Dear Sir,

**Introduction of Advanced Approaches of Basel II Framework in India –  
Draft Time Schedule**

Please refer to our circular DBOD.No.BP.BC.90/20.06.001/2006-07 dated April 27, 2007 on the New Capital Adequacy Framework in terms of which the foreign banks operating in India and the Indian banks having operational presence outside India have migrated to the simpler approaches available under the Basel II Framework since March 31, 2008. Other commercial banks are required to migrate to these approaches from March 31, 2009. Thus, the Standardised Approach for credit risk, Basic Indicator Approach for operational risk and the Standardised Duration Approach for market risk (as slightly amended under Basel II framework) have been implemented for the banks in India.

2. Having regard to the necessary up-gradation of risk management framework as also capital efficiency likely to accrue to the banks by adoption of the advanced approaches envisaged under the Basel II Framework and the emerging international trend in this regard, it is considered desirable to lay down a timeframe for implementation of the advanced approaches in India. This would enable the banks to plan and prepare for their migration to the advanced approaches for credit risk and operational risk, as also for the Internal Models Approach (IMA) for market risk.

3. Keeping in view the likely lead time that may be needed by the banks for creating the requisite technological and the risk management infrastructure, including the required databases, the MIS and the skill up-gradation, etc., it is proposed to lay down the following time schedule for implementation of the advanced approaches for the regulatory capital measurement:

<b>S. No.</b>	<b>Approach</b>	<b>The earliest date of making application by banks to the RBI</b>	<b>Likely date of approval by the RBI</b>
a.	Internal Models Approach (IMA) for Market Risk	April 1, 2010	March 31, 2011
b.	The Standardised Approach (TSA) for Operational Risk	April 1, 2010	September 30, 2010
c.	Advanced Measurement Approach (AMA) for Operational Risk	April 1, 2011	March 31, 2013
d.	Internal Ratings-Based (IRB) Approaches for Credit Risk (Foundation- as well as Advanced IRB)	April 1, 2012	March 31, 2014

4. The banks are advised to undertake an internal assessment of their preparedness for migration to advanced approaches, in the light of the criteria envisaged in the Basel II document, as per the aforesaid time schedule, and take a decision, with the approval of their Boards, whether they would like to migrate to any of the advanced approaches. The banks deciding to migrate to the advanced approaches may approach us for necessary approvals, in due course, as per the stipulated time schedule.

5. It may please be noted that the banks, at their discretion, would have the option of adopting the advanced approaches for one or more of the risk categories, as per their preparedness, while continuing with the simpler approaches for other risk categories, and it would not be necessary to adopt the advanced approaches for all the risk categories simultaneously. However, the banks should invariably obtain prior approval of the RBI for adopting any of the advanced approaches.

6. We shall be glad to have your comments on the proposed time schedule. The comments may be forwarded to The Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Fort, Mumbai – 400001, before February 27, 2009. The comments can also be sent by e-mail.

Yours faithfully,

(Prashant Saran)  
Chief General Manager-in-Charge