(1935 - 2010) प्लैटिनम जयंती PLATINUM JUBILEE	भारतीय रिज़र्व बैंक **RESERVE BANK OF INDIA** www.rbi.org

RBI/2008-09/429

DBOD.No.BP.BC. 122 /21.04.048/2008-09 April 9, 2009

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

Dear Sir

Prudential treatment in respect of Floating Provisions

Please refer to our circular DBOD.No.BP.BC. 118 /21.04.048/2008-09 dated March 25, 2009 regarding prudential treatment of different types of provisions in respect of loan portfolios in terms of which banks have been advised that Floating Provisions cannot be netted from gross NPAs to arrive at net NPAs, but could be reckoned as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

2. Banks are aware that the Leaders of Group of Twenty met in London on April 2, 2009 and declared the Global Plan for Recovery and Reform and declaration on strengthening the financial system. The Group agreed to take several measures to strengthen international frameworks for prudential regulations and has asked that the Financial Stability Board (FSB), Basle Committee of on Banking Supervision (BCBS) and Committee on Global Financial System (CGFS), working with accounting standard setters, should take forward, with a deadline of end 2009, implementation of the recommendations to

mitigate procyclicality, including a requirement for banks to build buffers of resources i.e capital and provisions in good times that they can draw down when conditions deteriorate. This position would modify instructions on use of floating provisions contained in our circular DBOD.BP.BC.89/21.04.048/2005-06 dated June 22, 2006.

3. While FSB, BCBS and CGFS will be working out detailed measures to mitigate procyclicality in due course and RBI would also continue to take measures to mitigate procyclicality, it is necessary that banks do realize the importance of building buffers such as floating provisions in good times so that they are able to use these in adverse circumstances. Therefore, banks are encouraged to build floating provisions as a buffer for the possible stress on asset quality later. Reserve Bank will issue detailed guidelines on mitigating procyclicality later this year after FSF, BCBS and CGFS finalize their recommendations in this regard.

4. It has been decided to defer the implementation of para (iv) of the circular dated March 25, 2009 *ibid* to the year 2009-10. Accordingly, banks will have the choice between either deducting their existing floating provisions from Gross NPAs to arrive at net NPAs or reckoning it as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets. It may be noted that this choice is limited to the financial year 2008-09 only.

Yours faithfully

(Prashant Saran)
Chief General Manager-in-Charge