भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2013-14/485
DBOD.No.BP.95/21.04.048/2013-14 February 7, 2014

The Chairman and Managing Director/Chief Executive Officer
All Scheduled Commercial Banks
(Excluding Local Area Banks and Regional Rural Banks)

Dear Sir,

Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer

Please refer to our circular DBOD.No.BP.BC.89/21.04.048/2005-06 dated June 22, 2006 and DBOD.No.BP.BC.68/21.04.048/2006-07 dated March 13, 2007 on creation, accounting, disclosures and utilisation of floating provisions by banks. Banks may also refer to our circular No.DBOD.No.BP.BC.87/21.04.048/2010-11 dated April 21, 2011 on creation and utilisation of 'countercyclical provisioning buffer', wherein we had advised that this buffer will be allowed to be used by banks for making specific provisions for non-performing assets, inter alia, during periods of system wide downturn, with the prior approval of RBI.

2. Accordingly, it has been decided, as a countercyclical measure, that banks may utilise upto 33 per cent of countercyclical provisioning buffer/floating provisions held by them as on March 31, 2013, for making specific provisions for non-performing assets, as per the policy approved by their Board of Directors.

3. Utilisation of countercyclical provisioning buffer/floating provisions under this measure may be over and above the utilisation of countercyclical provisioning buffer/floating provisions for the purpose of making accelerated/additional provisions as proposed in the Reserve Bank's Press Release dated January 30, 2014 on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy".

4. In this connection, banks may also refer to the Discussion Paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India dated March 30, 2012, wherein banks are required to build up 'Dynamic Provisioning Account' during good times and utilise the same during downturn. Under the proposed framework, banks are expected to either compute parameters such as probability of default, loss given default, etc. for different asset classes to arrive at long term average annual expected loss or use the standardised parameters prescribed by Reserve Bank of

बैंकिंग परिचालन और विकास विभाग, केन्द्रीय कार्यालय, 12वीं मंज़िल, शहीद भगत सिंह मार्ग, मुंबई – 400001
Department of Banking Operations and Development, Central Office, 12th Floor, Shahid Bhagat Singh Marg, Mumbai - 400001
Tel No: 22661602 Fax No: 22705691 Email ID: cgmicdbodco@rbi.org.in

India towards computation of Dynamic Provisioning requirement. Dynamic loan loss provisioning framework is expected to be in place with improvement in the system. Meanwhile, banks should develop necessary capabilities to compute their long term average annual expected loss for different asset classes, for switching over to the dynamic provisioning framework.

Yours faithfully,

(Chandan Sinha)
Principal Chief General Manager