

RBI releases ALM Guidelines for FIs

January 13, 2000

The Reserve Bank of India has today released the Guidelines on asset liability management (ALM) system for the ten all-India term lending and refinancing institutions (FIs) on its website: www.rbi.org.in The comprehensive guidelines to these institutions were issued on December 31, 1999 for instituting a structured asset liability management (ALM) system by them. The guidelines will be effective from April 1, 2000. FIs have been advised to constitute an Asset Liability Committee (ALCO) headed by CEO/CMD/DMD/ED on which the senior management of the FI from the concerned department would need to be represented.

The purpose of the ALM guidelines is mainly to strengthen the Management Information System within the FIs so as to sensitise them to the market risk assumed by them. Under the ALM Guidelines, the FIs are required to prepare periodical statements on liquidity gap and interest rate sensitivity and put up to their top management. To begin with, these statements are required to be compiled at quarterly intervals beginning from April 1, 2000 but after the initial phase-in period of one year, the liquidity gap report will be required to be prepared at fortnightly intervals and the interest rate sensitivity statement at monthly intervals, with effective from April 1, 2001.

In the ALM systems prescribed for FIs, not only the items of assets and liabilities appearing on the balance sheets of FIs are captured but also the cash flows emanating from these items over the entire life of the asset, liability or contingent commitments. While the Reserve Bank has prescribed prudential limits on negative liquidity gaps at 10 per cent and 15 per cent of the cash outflows in the first two time buckets (viz., 1 to 14 days and 15 to 28 days), the FIs themselves have to evolve internal prudential limits for cumulative negative liquidity gaps across all time buckets as also for the interest rate gaps in various time buckets with the approval of their Board/ALCO. The ALM system also aims at capturing the foreign currency portfolio of the FIs and therefore, the FIs are also required to compile currency-wise liquidity and interest rate sensitivity (IRS) reports in respect of their foreign currency exposures - for which separate formats have been prescribed. For the time being, the FIs are not required to furnish the data to the Reserve Bank about their liquidity gaps and interest rate gaps for which necessary prescriptions will be made by the Reserve Bank separately in due course, after the system stabilises.

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Press Release:1999-2000/915