

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS & DEVELOPMENT
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Ref. : DBOD No.

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DBQD. No. BP. BC.94 /21.04.098 / 98

September 10, 1998

To

**All Scheduled Commercial Banks
(excluding RRBs)**

Dear Sir,

Asset - Liability Management (ALM) System

As you are aware, the RBI has decided to introduce the Asset-Liability Management (ALM) System, as a part of the Risk Management and Control Systems in banks. We forward herewith broad Draft guidelines for measurement of liquidity risk and interest rate risk for putting in place the ALM System. The guidelines sent with this letter are intended to form the basis for initiating measures for collection, compilation and analysis of data required to support the ALM System. You may study the guidelines and forward to us your suggestions and difficulties, if any, that may be encountered in implementation of the system.

2. You will observe that the banks will have to analyse the past data for studying their behavioural and seasonal pattern and fix the benchmarks required for preparing maturity profile of various components of Assets and Liabilities including Off-Balance Sheet Items. The guidelines would serve as a benchmark for those banks which lack a formal ALM System. Banks which have already adopted more sophisticated systems may continue their existing systems but they should fine-tune their Information and Reporting Systems. The banks shall also have to take views on the interest rate movements and fix prudential limits on the Gaps. The exercise will require constant review and updating. We, therefore, suggest that banks may immediately set up a small Group under the charge of the General Manager (Funds Management/Treasury) with senior officers drawn from Investments, Foreign Exchange, Credit and Management Information Departments/areas and entrust them with the tasks of preparing the ground work for implementation of the ALM System.

3. The General Manager in-charge of Funds Management/Treasury may be designated as the 'Nodal Officer' who should be in touch with the RBI (viz. for the present Shri Salim Gangadharan, Deputy General Manager, Central DBOD - Telephone Number is 2184936) for clarifications, if any, required in regard to the proposed ALM System and guidelines. The name, address and Telephone Number (also Telex/Fax Number) of the Nodal Officer may be advised to us immediately.
4. In order to disseminate and impart knowledge on the subject, it has been decided to hold 2/3 days' seminars in Bankers Training College, Mumbai in November 1998 to enable banks to overcome initial difficulties and to implement the system smoothly.
5. Banks should introduce the proposed ALM System positively from April 1, 1999. We shall be glad to receive feed-back from you on the subject before October 15, 1998. A formal Circular will be issued to banks on the subject some time in January 1999.
6. Papers on "Principles for the Management of Interest Rate Risk" and "A Framework for Measuring and Managing Liquidity" issued by the Basle Committee on Banking Supervision, are enclosed for information and guidance of banks.
7. Please acknowledge receipt.

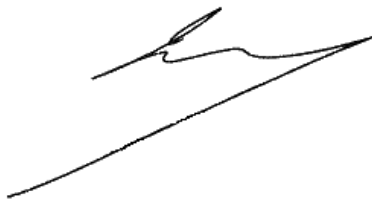
Yours faithfully,

Sd/-
(A.Ghosh)
Chief General Manager

Encl.: As above

Endt.No.DBOD.No.BP.792/21.04.098/98 of date.

Copy forwarded for information to (as per list attached).



(J.B. Mhatre)
Deputy General Manager