



RBI/2020-21/18

DOR.No.BP.BC/5/21.04.201/2020-21

August 6, 2020

All Scheduled Commercial Banks
(Excluding Local Area Banks
and Regional Rural Banks)

Dear Sir/Madam

Basel III Capital Regulations – Treatment of debt mutual funds/ETFs

Please refer to our [circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015](#), on Basel III capital regulations.

2. In terms of para 8.4.1 of the circular, capital charge for equities is applicable to units of mutual funds. It has now been decided that the banks investing in debt mutual fund/exchange traded fund (ETF) with underlying comprising of (i) Central, State and Foreign Central Governments' bonds (ii) Bank's Bonds and (iii) Corporate Bonds (other than Bank Bonds) shall compute capital charge for market risk as under:

- a) Investment in debt mutual fund/ETF for which full constituent debt details are available shall attract general market risk charge of 9 per cent, as hitherto. Specific risk capital charge for various kinds of exposures would be applied as detailed below:

Sr. No.	Nature of debt securities/issuer	Table to be followed (details in Annex)
a	Central, State and Foreign Central Governments' bonds	Table 16 – Part B
b	Banks' Bonds	Table 16 – Part D
c	Corporate Bonds (other than Bank Bonds)	Table 16 - Part E(ii)

- b) In case of debt mutual fund/ETF which contains a mix of the above debt instruments, the specific risk capital charge shall be computed based on the lowest rated debt instrument/ instrument attracting the highest specific risk capital charge in the fund.

- c) Debt mutual fund/ETF for which constituent debt details are not available, at least as of each month-end, shall continue to be treated on par with equity for computation of capital charge for market risk as prescribed in para 8.4.1 of [Master Circular on Basel III Capital Regulations](#).

Yours faithfully

(Saurav Sinha)
Chief General Manager-in-Charge

Annex

Table 16 – Part B: Specific risk capital charge for securities issued by Indian and foreign sovereigns

Sr. No.	Nature of Investment	Residual Maturity	Specific risk capital (as % of exposure)
A. Indian Central Government and State Governments			
1.	Investment in Central and State Government Securities	All	0.00
2.	Investments in other approved securities guaranteed by Central Government	All	0.00
3.	Investments in other approved securities guaranteed by State Government	All	1.80
4.	Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government	All	0.00
5.	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Government.	All	1.80
B. Foreign Central Governments			
1.	AAA to AA	All	0.00
2.	A	All	1.80
3.	BBB	All	4.50
4.	BB to B	All	9.00
5.	Below B	All	13.50
6.	Unrated	All	9.00

Table 16 - Part D – Specific Risk Capital Charge for bonds issued by banks

	Specific risk capital charge (%)			
	All Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-operative Banks)		All Non-Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-operative Banks)	
Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable))	Investments in capital instruments (other than equity) referred to in para 5.6.1(i)	All other claims	Investments in capital instruments (other than equity) referred to in para 5.6.1(i)	All other claims
1	2	3	4	5
Applicable Minimum CET1 + Applicable CCB and above	11.25	1.8	11.25	11.25
Applicable Minimum CET1 + CCB = 75% and <100% of applicable CCB	13.5	4.5	22.5	13.5
Applicable Minimum CET1 + CCB = 50% and <75% of applicable CCB	22.5	9	31.5	22.5
Applicable Minimum CET1 + CCB = 0% and <50% of applicable CCB	31.5	13.5	56.25	31.5
Minimum CET1 less than applicable minimum	56.25	56.25	Full deduction*	56.25

* deduction should be made from Common Equity Tier 1 capital

Table 16 – Part E (ii): Specific Risk Capital Charge for Corporate Bonds (Other than bank bonds)

Rating by the ECAI*	Specific Risk Capital Charge (%)
AAA	1.8
AA	2.7
A	4.5
BBB	9.0
BB and below	13.5
Unrated	9.0

* These ratings indicate the ratings assigned by Indian rating agencies/ECAIs or foreign rating agencies. In the case of foreign ECAIs, the rating symbols used here correspond to Standard and Poor. The modifiers “+” or “-” have been subsumed with the main rating category.