भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2012-13/139
DBOD.No.BP.BC.31 /21.04.157/2012-13 July 23, 2012

The Chairman and Managing Directors/ Chief Executive Officers of
All Scheduled Commercial Banks (excluding RRBs and LABs) &
All India Term-Lending & Refinancing Institutions

Dear Sir,

Prudential Norms for Off-balance Sheet Exposures of Banks

Please refer to our circular DBOD.No.BP.BC.57/21.04.157/2008–09 dated October 13, 2008, in terms of which, any change in any of the parameters of a derivative contract is treated as restructuring and the mark-to-market (MTM) value of the contract on the date of restructuring should be cash settled.

2. There may be situations where the clients of banks may like to reduce the notional exposure of the hedging derivative contract. In such cases, banks may partially or fully terminate the contract before maturity, at their discretion, thereby reducing the notional exposure of the contract. This reduction in notional exposure would not be treated as re-structuring of the derivative contract provided all other parameters of the original contract remain unchanged.

3.In such cases, if the MTM value of the derivative contract is not cash settled, banks may permit payment in instalments of the crystallized MTM of such derivative contracts (including Forex Forward Contracts), subject to the following conditions:

(i) Banks should have a Board approved policy in this regard.

(ii) Banks should permit repayment in instalments only if there is a reasonable certainty of repayment by the client.

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(iii) The repayment period should not extend beyond the maturity date of the contract.

(iv) The repayment instalments for the crystallized MTM should be uniformly received over the remaining maturity of the contract and its periodicity should be at least once in a quarter.

(v) If the client is permitted to pay the crystallized MTM in instalments and

a. if the amount becomes overdue for 90 days from the date of partial / full termination of the derivative contract, the receivable should be classified as NPA.

b. if the amount becomes overdue for 90 days from the due date of payment of subsequent instalments, the receivable should be classified as NPA.

(vi) Banks should reverse the entire MTM which has been taken to Profit and Loss account on accrual basis in case of (v) (a) and (v) (b) above. For the accounting of reversed MTM in these cases, banks should follow an approach similar to the one stipulated in circulars DBOD.No.BP.BC.57/21.04.157/2008-09 dated October 13, 2008 and DBOD.No.BP.BC.28/21.04.157/2011-12 dated August 11, 2011 on 'Prudential Norms for Off-balance Sheet Exposures of Banks'. Accordingly, the crystallized MTM of these derivative contracts should be reversed from Profit and Loss account and credited to another suspense account styled as *'Suspense Account - Crystallised Receivables'.*

4. If the client is not granted the facility of paying the crystallised MTM value in instalments and the amount becomes overdue for 90 days from the date of partial / full termination of the derivative contract, the entire receivable should be classified as NPA and banks should follow the instructions stipulated in our circulars dated October 13. 2008 and August 11, 2011, referred to above.

5. There may be cases, where the derivative contract has been terminated, either partially or fully, and crystallized MTM has been permitted to be repaid in instalments but the client subsequently decides to hedge the same underlying exposure again by entering into new contract with same or other bank (provided such re-booking is permissible as per extant RBI guidelines). In such cases, banks may offer derivative contracts to the client provided the client has fully re-paid the entire outstanding instalments corresponding to the derivative contract that was used to hedge the underlying exposure previously.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in-Charge