**Certificate in Risk in Financial Services**

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| **Sr. No.** | **Important Notifications** |
| 1 | Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 |
| 2 | PM Vishwakarma Scheme |
| 3 | Master Direction - Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 |
| 4 | Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices |
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**Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023**

RBI/DOR/2023-24/104
DOR.MRG.36/21.04.141/2023-24

September 12, 2023

All Commercial Banks (excluding Regional Rural Banks)

Dear Sir / Madam,

**Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023**

The extant regulatory instructions on classification and valuation of investment portfolio by commercial banks, as contained in the [Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2021](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12153), are largely based on a framework introduced in October 2000 drawing upon the then prevailing global standards and best practices.

2. In view of the significant developments in the global standards on classification, measurement and valuation of investments, the linkages with the capital adequacy framework as well as progress in the domestic financial markets, a need was felt to review and update these norms. Pursuant to the announcement made in the [Statement on Developmental and Regulatory Policies dated December 8, 2021](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52688), a [discussion paper](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53103) on the subject was issued for public comments on January 14, 2022. Based on the inputs received, it has now been decided to put in place a revised regulatory framework for the investment portfolio.

3. The revised framework updates the regulatory guidelines with global standards and best practices while introducing a symmetric treatment of fair value gains and losses, a clearly identifiable trading book under Held for Trading (HFT), removing the 90-day ceiling on holding period under HFT, removal of ceilings on Held to Maturity and more detailed disclosures on the investment portfolio. Further, to facilitate smooth implementation, [illustrative guidance](https://rbidocs.rbi.org.in/rdocs/content/pdfs/104MDINVESTMEN12092023_AN5.pdf) has been developed on the revised framework and annexed to the Directions.

**Applicability**

4. The revised framework as detailed in the Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2023 [annexed](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12534&Mode=0#MD) hereto shall be applicable from April 1, 2024, to all Commercial Banks excluding Regional Rural Banks.

5. Reserve Bank of India is issuing these Directions in the exercise of its powers conferred under section 35A of the Banking Regulation Act, 1949, and all the powers enabling it on this behalf.

Yours faithfully,

(Usha Janakiraman)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12534&Mode=0>

**PM Vishwakarma Scheme**

RBI/2023-24/61
FIDD.CO.MSME.BC.No.10/06.02.031/2023-24

September 13, 2023

The Chairman/ Managing Director/Chief Executive Officer
All Scheduled Commercial Banks
(including Small Finance Banks and Regional Rural Banks, excluding Payments Banks)
All Primary (Urban) Co-operative Banks/State Co-operative Banks
/ District Central Co-operative Banks
All Non-Banking Financial Companies (excluding housing finance companies)

Madam / Dear Sir,

**PM Vishwakarma Scheme**

Government of India (GoI) has introduced the ‘PM Vishwakarma Scheme’ which aims to provide support to artisans and craftspeople to enable them to move up the value chain in their respective trades. The Scheme envisages, among other measures, credit support to the beneficiaries at concessional interest rate, with interest subvention support by GoI.

2. In this regard, eligible lending institutions may refer to the Scheme [guidelines](https://pmvishwakarma.gov.in/FileHandling/ViewFile/MiscFiles%5CPM%20Vishwakarma-Guidelines.pdf) issued by the Ministry of Micro, Small and Medium Enterprises, for appropriate action.

Yours faithfully,

(Nisha Nambiar)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12536&Mode=0>

**Master Direction - Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023**

RBI/DoR/2023-24/105
DoR.FIN.REC.40/01.02.000/2023-24

September 21, 2023

**Master Direction - Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023**

In exercise of the powers conferred by Section 45L of the Reserve Bank of India Act, 1934, the Reserve Bank of India (hereinafter called the Reserve Bank) being satisfied that it is necessary and expedient in the public interest and in the interest of financial sector policy so to do, hereby, issues the [Directions](https://rbidocs.rbi.org.in/rdocs/content/pdfs/105MDAIFIS21092023.pdf) hereinafter specified.

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12538&Mode=0>

**Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices**

RBI/2023-24/107
DoS.CO.CSITEG/SEC.7/31.01.015/2023-24

November 7, 2023

The Chairman/Managing Director/Chief Executive Officer
Scheduled Commercial Banks (excluding Regional Rural Banks);
Small Finance Banks; Payments Banks;
Non-Banking Financial Companies;
Credit Information Companies; and
All India Financial Institutions (EXIM Bank, NABARD, NaBFID, NHB and SIDBI)

Madam/Dear Sir,

**Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices**

Please refer to paragraph IV (8) of the [Statement on Developmental and Regulatory Policies](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53248) released with the [Bi-monthly Monetary Policy Statement 2021-22 on February 10, 2022](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53247), wherein it was announced that draft guidelines, updating and consolidating the instructions relating to Information Technology (IT) Governance and Controls, Business Continuity Management and Information Systems Audit, will be issued by the Reserve Bank of India.

2. Accordingly, a draft Master Direction on the subject was published in [October 2022](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54571) seeking public comments.  Based on feedback received, the final Reserve Bank of India (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2023 are enclosed herewith.

Yours faithfully,

(T.K.Rajan)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12562&Mode=0>

**Regulatory measures towards consumer credit and bank credit to NBFCs**

RBI/2023-24/85
DOR.STR.REC.57/21.06.001/2023-24

November 16, 2023

Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
Non-Banking Financial Companies (including HFCs)

Madam/Dear Sir,

**Regulatory measures towards consumer credit and bank credit to NBFCs**

Please refer to [Governor’s Statement dated October 6, 2023](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=56501) flagging the high growth in certain components of consumer credit and advising banks and non-banking financial companies (NBFCs) to strengthen their internal surveillance mechanisms, address the build-up of risks, if any, and institute suitable safeguards, in their own interest. The high growth seen in consumer credit and increasing dependency of NBFCs on bank borrowings were also highlighted by Governor in the interactions with MD/CEOs of major banks and large NBFCs in July and August 2023, respectively.

2. In this context, it has been decided to effect the following measures as under:

**A. Consumer credit exposure**

(a) Consumer credit exposure of commercial banks

As per extant instructions applicable to commercial banks[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12567&Mode=0#F1), consumer credit attracts a risk weight of 100%. On a review, it has been decided to increase the risk weights in respect of consumer credit exposure of commercial banks (outstanding as well as new), including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery, by 25 percentage points to 125%.

(b) Consumer credit exposure of NBFCs

In terms of extant norms, NBFCs’ loan exposures generally attract a risk weight of 100%[2](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12567&Mode=0#F2). On a review, it has been decided that the consumer credit exposure of NBFCs (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans, shall attract a risk weight of 125%.

(c) Credit card receivables

As per extant instructions, credit card receivables of scheduled commercial banks (SCBs) attract a risk weight of 125%[3](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12567&Mode=0#F3) while that of NBFCs attract a risk weight of 100%[4](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12567&Mode=0#F4). On a review, it has been decided to increase the risk weights on such exposures by 25 percentage points to 150% and 125% for SCBs and NBFCs respectively.

**B. Bank credit to NBFCs**

In terms of extant norms, exposures of SCBs to NBFCs, excluding core investment companies, are risk weighted as per the ratings assigned by accredited external credit assessment institutions (ECAI)[5](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12567&Mode=0#F5). On a review, it has been decided to increase the risk weights on such exposures of SCBs by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100%. For this purpose, loans to HFCs, and loans to NBFCs which are eligible for classification as priority sector in terms of the extant instructions shall be excluded.

**C. Strengthening credit standards**

(a) The REs shall review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Boards as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee.

(b) All top-up loans extended by REs against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

3. The above instructions have been issued in exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

4. The above instructions, other than paragraph 2C(a), shall come into force with immediate effect. All REs shall endeavour to comply with the provisions at paragraph 2C(a) at the earliest, but in any case shall implement them by no later than February 29, 2024.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12567&Mode=0>

**Investments in Alternative Investment Funds (AIFs)**

RBI/2023-24/90
DOR.STR.REC.58/21.04.048/2023-24

December 19, 2023

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
All Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks
All All-India Financial Institutions
All Non-Banking Financial Companies (including Housing Finance Companies)

**Investments in Alternative Investment Funds (AIFs)**

Regulated entities (REs) make investments in units of AIFs as part of their regular investment operations. However, certain transactions of REs involving AIFs that raise regulatory concerns have come to our notice. These transactions entail substitution of direct loan exposure of REs to borrowers, with indirect exposure through investments in units of AIFs.

2. In order to address concerns relating to possible evergreening through this route, it is advised as under:

(i) REs shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE.

Explanation: The debtor company of the RE, for this purpose, shall mean any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

(ii) If an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If REs have already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from date of issuance of this circular. REs shall forthwith arrange to advise the AIFs suitably in the matter.

(iii) In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100 percent provision on such investments.

3. In addition, investment by REs in the subordinated units of any AIF scheme with a ‘priority distribution model’ shall be subject to full deduction from RE’s capital funds.

Explanation: ‘Priority distribution model’ shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated November 23, 2022.

4. These instructions have been issued in exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949 read with Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

5. The above instructions shall become effective immediately.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12572&Mode=0>

**Reserve Bank of India (Government Securities Lending) Directions, 2023**

RBI/2023-24/97
FMRD.DIRD.No.05/14.03.061/2023-2024

December 27, 2023

All participants in Government Securities market

Madam/Sir,

**Reserve Bank of India (Government Securities Lending) Directions, 2023**

Please refer to paragraph 1 of the [Statement on Developmental and Regulatory Policies](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55179), issued as a part of the [Bi-monthly Monetary Policy Statement for 2022-23 dated February 08, 2023](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55178) on introduction of Securities Lending and Borrowing in Government Securities. In pursuance of the announcement, the [Draft Reserve Bank of India (Government Securities Lending) Directions, 2023](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55238) were placed on the Reserve Bank’s website, on February 17, 2023, to invite comments from banks, market participants and other interested parties.

2. Based on the comments received, [the Directions](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12580&Mode=0#Directions) have been finalized and are being issued herewith.

3. These Directions have been issued in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 read with section 45U of the Act and of all the powers enabling it in this behalf.

4. These Directions shall come into immediate effect.

Yours faithfully,

(Dimple Bhandia)
Chief General Manager

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12580&Mode=0>

**Framework for Dealing with Domestic Systemically Important Banks (D-SIBs) – 2023**

**(Revised upto December 28, 2023**[**1**](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362#F1)**)**

**Introduction**

Some banks, due to their size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness, become systemically important. The disorderly failure of these banks has the potential to cause significant disruption to the essential services they provide to the banking system, and in turn, to the overall economic activity. Therefore, the continued functioning of Systemically Important Banks (SIBs) is critical for the uninterrupted availability of essential banking services to the real economy.

**Lessons from recent global financial crisis**

2. It was observed during the recent global financial crisis that problems faced by certain large and highly interconnected financial institutions hampered the orderly functioning of the financial system, which in turn, negatively impacted the real economy. Government intervention was considered necessary to ensure financial stability in many jurisdictions. Cost of public sector intervention and consequential increase in moral hazard required that future regulatory policies should aim at reducing the probability of failure of SIBs and the impact of the failure of these banks.

3. As a response to the recent crisis, a series of reform measures were unveiled, broadly known as Basel III, to improve the resiliency of banks and banking systems. Basel III reform measures include: increase in the quality and quantity of regulatory capital of the banks, improving risk coverage, introduction of a leverage ratio to serve as a backstop to the risk-based capital regime, capital conservation buffer and countercyclical capital buffer as well as a global standard for liquidity risk management. These policy measures will cover all banks including SIBs. However, these policy measures are not adequate to deal with risks posed by SIBs. Therefore, additional policy measures for SIBs are necessary to counter the systemic risks and moral hazard issues posed by these banks, which other policy reforms do not address adequately.

**Additional risks posed by SIBs**

4. SIBs are perceived as banks that are ‘Too Big To Fail (TBTF)’. This perception of TBTF creates an expectation of government support for these banks at the time of distress. Due to this perception, these banks enjoy certain advantages in the funding markets. However, the perceived expectation of government support amplifies risk-taking, reduces market discipline, creates competitive distortions, and increases the probability of distress in the future. These considerations require that SIBs should be subjected to additional policy measures to deal with the systemic risks and moral hazard issues posed by them.

5. In October 2010[2](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362#F2), the Financial Stability Board (FSB) recommended that all member countries needed to have in place a framework to reduce risks attributable to Systemically Important Financial Institutions (SIFIs) in their jurisdictions. The FSB asked the Basel Committee on Banking Supervision (BCBS) to develop an assessment methodology comprising both quantitative and qualitative indicators to assess the systemic importance of Global SIFIs (G-SIFIs), along with an assessment of the extent of going-concern loss absorbency capital which could be provided by various proposed instruments. In response, BCBS came out with a framework in November, 2011 (since up-dated in July, 2013) for identifying the Global Systemically Important Banks (G-SIBs) and the magnitude of additional loss absorbency capital requirements applicable to these G-SIBs.

6. The BCBS is also considering proposals such as large exposure restrictions and liquidity measures which are referred to as “other prudential measures” in the FSB Recommendations and Time Lines. The G20 leaders had asked the BCBS and FSB in November 2011 to extend the G-SIBs framework to Domestic Systemically Important Banks (D-SIBs) expeditiously.

**Identification of G-SIBs**

**BCBS methodology for identification of G-SIBs**

7. The BCBS has developed a methodology for assessing the systemic importance of G-SIBs. The methodology is based on an indicator-based measurement approach. The indicators capture different aspects that generate negative externalities, and make a bank systemically important and its survival critical for the stability of the financial system. The selected indicators are size, global (cross-jurisdictional) activity, interconnectedness, lack of substitutability or financial institution infrastructure, and complexity of the G-SIBs. The advantage of the multiple indicator-based measurement approach is that it encompasses many dimensions of systemic importance, it is relatively simple and more robust than currently available model-based measurement approaches and methodologies that rely on only a small set of indicators or market variables. The methodology gives an equal weight of 20% to each of the five categories of systemic importance indicators. Except the size category, the BCBS has identified multiple indicators in each of the other four categories, with each indicator equally weighted within its category. That is, where there are two indicators in a category, each indicator is given a weight of 10%; where there are three, the indicators are each weighted 6.67% (i.e. 20/3). For each bank, the score for a particular indicator is calculated by dividing the individual bank amount (expressed in EUR) by the aggregate amount for the indicator summed across all banks in the sample.

8. The indicator-based measurement approach is based on a large sample of banks, which works as a proxy for the global banking sector. The banks fulfilling any of the following three criteria are included in the sample:

i) 75 largest global banks (based on the Basel III leverage ratio exposure measure at the end of the financial year);

ii) Banks that have been designated as G-SIBs in the previous year (unless supervisors agree that there is a compelling reason to exclude them); and

iii) Banks that have been added to the sample by national supervisors using their supervisory judgement.

9. The banks with score (produced by the indicator-based measurement approach) that exceeds a cutoff level set by the BCBS are classified as G-SIBs. Supervisory judgement may also be used to add banks with scores below the cut-off to the list of G-SIBs. This judgement will be exercised according to the principles set out by BCBS. Based on the scores produced using the end-2011 data supplied by the sample banks, the tentative cutoff point set by the BCBS and use of supervisory judgement, 29 banks were classified as G-SIBs in November 2013 by the FSB. The FSB had identified 28 banks as G-SIBs in November 2012.

10. The banks identified as G-SIBs would be plotted in four different buckets depending upon their systemic importance scores in ascending order and they would be required to maintain additional capital in the range of 1% to 2.5% of their risk weighted assets depending upon the order of the buckets. The additional capital (higher loss absorbency requirement) is to be met with Common Equity Tier 1 (CET1) capital. An empty bucket at the top (fifth bucket) with a CET1 capital requirement of 3.5% has been provided to take care of banks, in case their systemic importance scores increase in future beyond the boundary of the fourth bucket. If this bucket gets populated in the future, a new bucket will be added. The bucketing system provides disincentive for adding to the systemic importance scores and incentives for banks to avoid becoming systemically more important. The higher loss absorbency (HLA) capital requirement would be phased-in parallel with the capital conservation buffer and countercyclical capital buffer.

11. The implementation of these measures will help reduce the probability and impact of failure of a SIB on the real economy and will also create a level playing field between the SIBs and non-SIBs by reducing competitive advantages of SIBs in funding markets. These policies will thus endeavour to curb amplification of risk taking and reduce competitive distortions.

**BCBS framework for dealing with the D-SIBs**

12. The BCBS finalized its framework for dealing with D-SIBs in October 2012. The DSIB framework focuses on the impact that the distress or failure of banks will have on the domestic economy. As opposed to G-SIB framework, D-SIB framework is based on the assessment conducted by the national authorities, who are best placed to evaluate the impact of failure on the local financial system and the local economy. D-SIB framework is based on a set of principles, which complement the G-SIB framework, address negative externalities and promote a level-playing field. The principles developed by the BCBS for D-SIBs provide national discretion in identifying D-SIBs and additional loss absorbency requirements applicable to them. A list of BCBS principles for D-SIBs is given in [Appendix 1](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362#APP1).

**The methodology to be adopted by RBI to identify D-SIBs**

13. The process of assessment of systemic importance of banks will be a two-step process. In the first step, sample of banks to be assessed for their systemic importance will be decided. It is felt that systemic importance of all the banks need not be computed as many smaller banks would be of lower systemic importance and burdening these banks with onerous data requirements on a regular basis may not be prudent. Hence, the sample of banks for identification of D-SIBs may exclude many smaller banks. Once the sample of banks is selected, detailed study to compute their systemic importance could be initiated. Based on a range of indicators, a composite score of systemic importance for each bank in the sample will be computed. The banks having systemic importance above a threshold will be designated as D-SIBs. D-SIBs would be segregated into different buckets based on their systemic importance scores, and subject to loss absorbency capital surcharge in a graded manner depending on the buckets, in which they are placed. A D-SIB in lower bucket will attract lower capital charge and a D-SIB in higher bucket will attract higher capital charge.

**Sample of banks**

14. The banks will be selected for computation of systemic importance based on the analysis of their size (based on Basel III Leverage Ratio Exposure Measure) as a percentage of GDP. Banks having a size beyond 2% of GDP will be selected in the sample. For this purpose, latest GDP figure at market prices, released by Central Statistical Office, Government of India will be used. As foreign banks in India have smaller balance sheet size, none of them would automatically get selected in the sample. However, foreign banks are quite active in the derivatives market and the specialized services provided by these banks might not be easily substituted by domestic banks. It is, therefore, appropriate to include a few large foreign banks also in the sample of banks to compute the systemic importance.

**Assessment methodology**

15. The methodology to be used to assess the systemic importance is largely based on the indicator-based approach being used by BCBS to identify G-SIBs. The indicators to be used to assess domestic systemic importance of the banks are as follows:

i) Size;

ii) Interconnectedness;

iii) Lack of readily available substitutes or financial institution infrastructure; and

iv) Complexity.

16. The BCBS methodology for identification of G-SIBs gives equal weight for each of the indicators used to compute systemic importance with a cap assigned to the weight of substitutability indicator. However, methodology that will be adopted by RBI would give more weight to the size as it is felt that size is the most important indicator of systemic importance. Interconnectedness, substitutability and complexity indicators would be divided further into multiple indicators. Details of the data requirements for computation of systemic importance scores are given in [Appendix 2](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362#APP2). A description of indicators, sub-indicators and their relative weights is as under:

|  |  |  |  |
| --- | --- | --- | --- |
| **Sl. No.** | **Indicator** | **Sub-indicator** | **Indicator weight** |
| 1 | Size (total exposure as defined for use in Basel III Leverage Ratio) | - | 40% |
| 2 | Interconnectedness | Intra-financial system assets | 6.67% |
| Intra-financial system liabilities | 6.67% |
| Securities outstanding | 6.67% |
| 3 | Substitutability | Assets Under Custody | 6.67% |
| Digital Payments made in INR | 6.67% |
| Underwritten transactions in debt and equity markets | 6.67% |
| 4 | Complexity | Notional amount of OTC Derivatives | 6.67% |
| Cross Jurisdictional Liabilities | 6.67% |
| Securities in Held For Trading and Available for Sale categories | 6.67% |

Size Indicator

17. The impairment or failure of a bank will more likely damage the domestic economy if its activities constitute significantly large share of domestic banking activities. Therefore, there is a greater chance that impairment or failure of a larger bank would cause greater damage to the financial system and domestic real economy. The impairment or failure of a bank with large size is also more likely to damage confidence in the banking system as a whole. Size is a more important measure of systemic importance than any other indicators and therefore, size indicator will be assigned more weight than the other indicators.

18. The size indicator takes into account both on- and off-balance sheet items. In order to be consistent with the BCBS methodology, size of a bank will be measured by using the same definition for total exposure measure used for calculation of leverage ratio of Basel III capital framework. The score for each bank will be calculated as its amount of total exposure divided by the sum total of exposures of all banks in the sample.

Interconnectedness Indicator

19. Impairment or failure of one bank may have the potential to increase the probability of impairment or failure of other banks if there is a high degree of interconnectedness (contractual obligations) with other banks. This chain effect operates on both sides of the balance sheet. There may be interconnections on the funding side as well as on the asset side of the balance sheet. The larger the number of linkages and size of individual exposures, the greater is the potential for the systemic risk getting magnified.

20. Interconnectedness indicator is divided into three sub-indicators: intra-financial system assets held by the bank, intra-financial system liabilities of the bank and total marketable securities issued by the bank. Intra-financial system assets comprise lending to financial institutions (including undrawn committed lines), holding of securities issued by other financial institutions, gross positive current exposure of Securities Financing Transactions and exposure value of those OTC derivatives which have positive current market value. Intra-financial system liabilities comprise deposits by other financial institutions (including undrawn committed lines), gross negative current exposure of Securities Financing Transactions and exposure value of those OTC derivatives which have negative current market value. The total marketable securities issued by the bank comprise debt securities, commercial paper, certificate of deposit and equity issued by the bank. The total marketable securities issued by the bank with the data on maturity structure of these securities will give an indication of the reliance of the bank on wholesale funding markets. This may also be one of the indicators of the interconnectedness.

Substitutability/financial institution infrastructure indicator

21. The impairment or failure of a bank will inflict greater damage to the financial system and real economy if certain critical services provided by the bank cannot be easily substituted by other banks. The greater the role of a bank as a service provider in underlying market infrastructure, e.g., payment systems, the larger the disruption it is likely to cause in terms of availability and range of services and infrastructure liquidity following its failure. Also, the costs to be borne by the customers of a failed bank to seek the same service at another bank would be much higher if the failed bank had a greater market share in providing that particular service.

22. The BCBS methodology for G-SIB identification has three sub-indicators for substitutability indicator: assets under custody; payment activity and total amount of debt and equity instruments underwritten. The indicators used for this category in our methodology would be assets under custody, the digital payments made by a bank in INR and value of underwritten transactions in debt and equity markets over a period of last one year.

Complexity Indicator

23. Complexity of a bank is also an indicator of systemic importance. The more complex a bank is, the greater are the costs and time needed to resolve its problems. Three indicators of complexity have been considered to measure complexity of a bank: (i) notional amount of over-the-counter (OTC) derivatives; (ii) cross jurisdictional liabilities; and (iii) trading and available-for-sale securities.

**Differences between BCBS methodology for identification of G-SIB and RBI methodology for identification of D-SIB**

24. The major difference between BCBS methodology for G-SIB identification and RBI methodology for D-SIB identification is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **S. No.** | **Point of difference** | **BCBS G-SIB identification methodology** | **RBI D-SIB identification methodology** |
| 1 | Sample of banks | 75 largest global banks based on financial year end Basel III leverage ratio exposure measure. National supervisors have the discretion to add any bank in the sample apart from 75 largest banks. | Banks having size (Basel III leverage ratio exposure measure) as a percentage of GDP equal to or more than 2%. Additionally, five largest foreign banks, based on their size, will also be added in the sample. |
| 2 | Indicators | Five broad indicators:1. Cross jurisdictional activity2. Size3. Interconnectedness4. Substitutability and5. Complexity | Four broad indicators as mentioned in BCBS’s framework for D-SIBs will be used:1. Size2. Interconnectedness3. Substitutability and4. Complexity |
| 3 | Indicator weights | All indicators given equal weight with a cap to substitutability category weight. | Size will be given a weight of 40% and other three indicators will be given a weight of 20% each |
| 4 | Sub-indicators | Three sub-indicators for Complexity indicator:1. Notional amount of OTC derivatives2. Level 3 assets and3. Trading and Available For Sales Securities | Level 3 assets for complexity indicator dropped and instead cross jurisdictional liabilities added. |

**The role of regulatory/supervisory judgements**

25. The multiple indicator-based approach discussed above provides a general structure for assessment of systemic significance of banks. However, it is not a precise quantitative instrument and the final decision for designating a bank as D-SIB will also factor qualitative regulatory and supervisory judgements.

**Annual Assessment**

26. The computation of systemic importance scores, based on the end-March data of all the banks in the sample, will be performed annually in the months of August-October, and names of the banks classified as D-SIBs will be disclosed in the month of November every year. Accordingly, banks will be required to be in readiness to submit the required data to RBI by August 15 of each year.

**Allocation of banks into buckets**

27. Based on the data received from banks in the sample on the above indicators, systemic importance score will be calculated. For each bank, the score for a particular indicator will be calculated by dividing the individual bank amount by the aggregate amount for the indicator summed across all banks in the sample. The score for each category will be multiplied by 1000 in order to express the indicator scores in basis points. Overall systemic importance of a bank will be computed as weighted average scores of all indicators. Thus, the systemic importance score of a bank would represent its relative importance with respect to the other banks in the sample. Banks that have scores above a threshold score will be classified as D-SIBs. However, the process of classification of a bank as D-SIB will also be guided by qualitative analysis and regulatory/supervisory insights about different banks. Banks will be allocated to different buckets based on their systemic importance score.

**Higher Capital Requirements for D-SIBs**

28. The quantum of additional capital requirements for D-SIBs has been based on a mix of quantitative calibration exercise and consideration of country-specific factors. The quantitative calibration exercise was based on two approaches. The first approach for calibration was the Expected Impact (EI) approach. The rationale behind EI approach is that the calibration of systemic risk capital surcharge should ensure that the expected loss to the financial system, consequent upon the failure of a SIB, equals the expected loss from the failure of a non-SIB. The expected loss is defined as the multiplication of the probability of default (PD) by Loss Given Default (LGD). As the failure of a SIB will have larger impact (higher LGD) on the financial system than a non-SIB (lower LGD), the PD of a SIB needs to be sufficiently lower than a non-SIB, so that the expected loss of failure of a SIB and non-SIB is equalised. This approach suggests that in the case of our banking system, the PD of the D-SIB with the highest systemic importance score should be reduced by imposing an additional CET1 of 0.88% of its risk weighted assets, so that the EI of failure of this bank is comparable to a reference non-SIB.

29. The other approach used for the calibration is Return on Risk Weighted Assets (RORWA) approach. This approach defines risk in banking in terms of earnings volatility. Earnings volatility creates the potential for loss. Losses, in turn, need to be funded, and it is the potential for loss that imposes a need for banks to hold capital. The link between earnings volatility and capital is central to this approach. This approach thus measures risk in terms of economic capital – the amount of capital needed to protect against earnings volatility at a prescribed confidence interval. This approach defines earnings as mean adjusted RORWA. The historical distribution of bank earnings is then used to estimate how much additional capital is needed to absorb extreme negative realisations and avoid failure. This approach suggests that in case of our banking system, the D-SIB with the highest systemic importance score should have additional CET1 of 2% of risk weighted assets compared to a reference non-SIB.

30. The calibration of additional CET1 requirements for D-SIBs was also contingent on the country-specific factors which should form the basis for exercise of supervisory judgement. A mechanical reliance on output of models was sought to be avoided due to possibility of significant model risk involved. Supervisory judgement was based on two country specific factors - degree of concentration in the banking sector and size of banking sector relative to GDP. Degree of concentration in the banking sector was measured by computing Herfindahl-Hirschman Index (HHI). HHI of Indian banking sector using square of on-balance sheet market share of all banks in the system is 518.53. A HHI score of 1000 or less shows an un-concentrated banking system. HHI score of India indicates that the banking system in India is not concentrated. Size of banking sector compared to the size of economy was assessed with respect to domestic credit provided by the banking system as a percentage of GDP. Compared to other major countries, this percentage is on the lower side.

31. Based on a mix of quantitative analysis and country-specific factors as above, and as per the supervisory judgement of RBI, a bank with highest systemic importance score should be required to have 0.8% of its risk weighted assets as additional capital charge in the form of CET1 capital. Other buckets have been calibrated accordingly. A table showing the additional CET1 capital requirement for D-SIBs is presented below:

|  |  |
| --- | --- |
| **Bucket** | **Additional CET1 requirement (as a percentage of risk weighted assets)** |
| 5 (Empty) | 1.00% |
| 4 | 0.80% |
| 3 | 0.60% |
| 2 | 0.40% |
| 1 | 0.20% |

32. The additional CET1 requirements will be applicable at the level of both solo as well as consolidated level of the D-SIB, in line with extant capital adequacy provisions.

33. The systemic importance score will be calibrated in such a manner that the bucket 5 does not have any banks initially. An empty bucket with higher CET1 requirement will incentivize D-SIBs with higher scores not to increase their systemic importance in future. In the event of the fifth bucket getting populated, an additional empty (sixth) bucket would be added with same range and same differential additional CET1.

34. Presently, foreign banks operating in India as branches maintain capital in their Indian books as mandated by RBI. Similarly, foreign banks as Wholly Owned Subsidiaries (WOS) of their parent bank will maintain capital in the local subsidiary as mandated by RBI. The maintenance of additional CET1 by a foreign bank in India whether as a branch or a WOS, and as a G-SIB or D-SIB, will be guided by following rules:

1. In case a foreign bank having branch presence in India is a G-SIB, it has to maintain additional CET1 capital surcharge in India as applicable to it as G-SIB, proportionate to its Risk Weighted Assets (RWAs) in India. Additional CET1 requirement for such banks in India may be computed as additional CET1 buffer prescribed by the home regulator multiplied by (India RWA as per consolidated global Group books/Total consolidated global Group RWA). Additional CET1 may be phased in India in accordance with the phase-in prescribed by the home regulator.
2. In case a foreign bank having branch presence in India is not a G-SIB, but a DSIB in India, it has to maintain D-SIB additional capital surcharge in India.
3. In case a foreign bank having branch presence in India is both a G-SIB and a DSIB in India, it has to maintain capital surcharge in India, at a rate which is higher of the two (G-SIB additional CET1 surcharge or D-SIB additional CET1 surcharge).
4. In case of a foreign bank having presence in India as a WOS of its parent bank which is a G-SIB, it will not be required to maintain G-SIB capital surcharge in India as it will have the status of a domestic bank. However, if the WOS is designated as a D-SIB in India, it will be required to maintain D-SIB capital surcharge in India.

**Other regulatory requirements applicable to D-SIBs**

35. One of the recommendations of the FSB in their October 2010 paper[3](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362#F3) was that further regulatory measures including liquidity surcharges, tighter large exposure restrictions, etc. may also be effective in dealing with SIBs. RBI will consider implementing these measures for D-SIBs as and when international frameworks on these aspects are agreed to by BCBS. The implementation of these additional measures will depend on the internationally agreed timeline.

**Interaction with the other elements of Basel III framework**

**Group treatment**

36. For domestic banks, the computation of systemic importance scores will be done based on the data that relates to global consolidated balance sheet. For the purpose of consolidation, the provisions of regulatory consolidation will be used as required in the [circular DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=1071&Mode=0). However, for foreign banks, the computation of systemic importance will be done on the basis of data that relates to local consolidated balance sheet.[4](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362#F4)

**Interaction with the capital conservation buffer**

37. The higher CET1 requirements will be made applicable as an extension of capital conservation buffer. If a D-SIB is not able to meet the additional CET1 requirement, it will be subjected to restrictions on distribution of profits and other restrictions as applicable under the Basel III framework. For example, after the full implementation of D-SIB framework, a D-SIB falling in bucket 1 will be required to maintain a CET1 capital of 8.2% of RWAs if it does not want to have any restrictions on it with regard to dividend / capital distribution applicable under the capital buffer regime.

**Interaction with Pillar 2 requirements**

38. To the extent a D-SIB has incorporated its systemic importance in its Internal Capital Adequacy Assessment Process (ICAAP); it will not be required to hold capital twice for the same risk during the Supervisory Review and Evaluation Process (SREP). However, additional capital by D-SIBs would not be counted towards non-systemic risks (for example, Interest Rate Risk in Banking Book, Credit Concentration Risk, etc.), which are normally captured under Pillar 2.

**Supervisory Implications**

39. One of the recommendations of the FSB in their October 2011 paper was that all national supervisory authorities should have the power to apply differentiated supervisory requirements and intensity of supervision to SIFIs based on the risks they pose to the financial system. The banks designated as D-SIBs will be subjected to more intensive supervision in the form of higher frequency and higher intensity of on- and offsite monitoring. It is also important that these banks should adopt sound corporate governance of risk and risk management culture.

**Effective date of implementation**

40. The higher capital requirements applicable to D-SIBs will be applicable from April 1, 2016 in a phased manner and would become fully effective from April 1, 2019. The phasing-in of additional common equity requirement will be as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Bucket | April 1, 2016 | April 1, 2017 | April 1, 2018 | April 1, 2019 |
| 5 (Empty) |   |   |   |   |
| 4 | 0.20% | 0.40% | 0.60% | 0.80% |
| 3 | 0.15% | 0.30% | 0.45% | 0.60% |
| 2 | 0.10% | 0.20% | 0.30% | 0.40% |
| 1 | 0.05% | 0.10% | 0.15% | 0.20% |

**Disclosures**

41. The names of the banks classified as D-SIBs will be disclosed in the month of November every year.

**Review of the Assessment Methodology**

42. The assessment methodology for assessing the systemic importance of banks and identifying D-SIBs will be reviewed on a regular basis. However, this review will be at least once in three years. The review will take into consideration the functioning of the framework during the last three years, theoretical developments internationally in the field of systemic risk measurement and the experience of other countries in implementing the D-SIB framework and the methodology adopted by them.

For more details, kindly refer: <https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4362>

**Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Review of National Development Banks**

RBI/2023-24/103
DOR.LRG.REC.62/03.10.001/2023-24

December 29, 2023

Madam / Dear Sir,

**Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Review of National Development Banks**

Please refer to circular [DBR.BP.BC.No.106/21.04.098/2017-18 dated May 17, 2018](https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11278&Mode=0) on Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) – Final Guidelines.

2. NABARD, NHB and SIDBI are considered as National Development Banks (NDBs) under the extant NSFR framework. On a review, it has been decided that the other All India Financial Institutions (AIFIs) i.e. EXIM Bank and National Bank for Financing Infrastructure and Development (NaBFID) shall also be considered as NDBs for NSFR computation.

3. Further, unencumbered loans to NDBs with a residual maturity of one year or more that would qualify for a 35 per cent or lower risk weight under the Standardised Approach for credit risk[1](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12587&Mode=0#F1) shall be assigned a Required Stable Funding (RSF) factor of 65 per cent (as against 100 per cent currently).

4. Accordingly, the select instructions have been amended as detailed in [Annex](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12587&Mode=0#ANN1).

**Applicability**

5. This circular is applicable to all Scheduled Commercial Banks (excluding Payments Banks and Regional Rural Banks).

6. These instructions shall come into force with immediate effect.

Yours faithfully

(R. Lakshmi Kanth Rao)
Chief General Manager-in-Charge

For more details, kindly refer: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12587&Mode=0>