

LARGE EXPOSURES FRAMEWORK (LEF)

The following write up on Large Exposures Framework (LEF) is based on RBI Notification No. RBI/2016-17/167 DBR.No.BP.BC.43/21.01.003/2016-17 dated December 1, 2016. Candidates are advised to refer to the Notification for additional details.

In order to align the exposure norms for Indian banks with the BCBS standards, RBI has laid down the guidelines on Large Exposures Framework on December 1, 2016. The guidelines are aimed at significant tightening of norms pertaining to concentration risks of banks, especially in relation to large borrowers. The guidelines come into effect from April 1, 2019.

A large exposure is defined as any exposure to a counter-party or group of counter-parties which is equal to 10 per cent of the bank's eligible capital base (defined as tier-I capital).

LARGE EXPOSURE LIMITS

Single Counterparty: The sum of all the exposure values of a bank to a single counterparty must not be higher than 20 percent of the bank's available eligible capital base at all times. In exceptional cases, Board of banks may allow an additional 5 percent exposure of the bank's available eligible capital base. Banks shall lay down a Board approved policy in this regard.

Groups of Connected Counterparties: The sum of all the exposure values of a bank to a group of connected counterparties, as defined below, must not be higher than 25 percent of the bank's available eligible capital base at all times.

Any breach of the above LE limits shall be under exceptional conditions only and shall be reported to RBI immediately and rectified at the earliest but not later than a period of 30 days from the date of the breach.

Definition of connected counterparties

Bank may have exposures to a group of counterparties with specific relationships or dependencies such that, where one of the counterparties fail, all of the counterparties are likely to fail. A group of this sort is referred to, in this framework, as a group of connected counterparties and must be treated as a single counterparty. In this case, the sum of the bank's exposures to all the individual entities included within a group of connected counterparties is subject to the large exposure limit and to the regulatory reporting requirements.

Counterparties exempted from LEF

The exposures that will be exempted from the LEF are listed below:

- a. Exposures to the Government of India and State Governments which are eligible for zero percent Risk Weight under the Basel III – Capital Regulation framework of the Reserve Bank of India;
- b. Exposures to Reserve Bank of India;
- c. Exposures where the principal and interest are fully guaranteed by the Government of India;

- d. Exposures secured by financial instruments issued by the Government of India,
- e. Intra-day interbank exposures;
- f. Intra-group exposures;
- g. Borrowers, to whom limits are authorised by the Reserve Bank for food credit;
- h. Banks' clearing activities related exposures to Qualifying Central Counterparties (QCCPs)
- i. Rural Infrastructure Development Fund (RIDF) deposits placed with NABARD.

However, a bank's exposure to an exempted entity which is hedged by a credit derivative shall be treated as an exposure to the counterparty providing the credit protection notwithstanding the fact that the original exposure is exempted.