RESERVE BANK OF INDIA

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DBOD.BP.BC.No.71 /21.06.001/2010-11 December 31, 2010

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

Dear Sir,

Prudential Guidelines on Capital Adequacy and Market Discipline -
New Capital Adequacy Framework (NCAF) - Parallel Run and Prudential Floor

Please refer to our circular DBOD.BP.BC.No.87/21.06.001/2009-10 dated April 7, 2010 on the captioned subject and paragraph 4.1.2 of Master Circular No. DBOD.No.BP.BC.15 / 21.06.001 / 2010-11 dated July 1, 2010 on Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF), in terms of which foreign banks operating in India and Indian banks having operational presence outside India are required to have parallel run beyond the specified date (i.e., March 31, 2010) and ensure that their Basel II minimum capital requirement continues to be higher than 80% of the minimum capital requirement computed as per Basel I framework for credit and market risks until further advice.

2. In the Second Quarter Review of Monetary Policy 2010-11 announced on November 2, 2010, banks were advised vide paragraph 102 on 'Regulatory and Supervisory Measures for Commercial Banks - Strengthening the Resilience of the Banking Sector' (copy of extract enclosed) to continue with the parallel run for a period of three years, i.e. till March 31, 2013, subject to review. Accordingly, all the banks in India would continue to have the parallel run till March 31, 2013, subject to review, and ensure that their Basel II minimum capital requirement continues to be higher than the prudential floor of 80% of the minimum capital requirement computed as per Basel I framework for credit and market risks.

3. All other guidelines on ‘Parallel Run’ contained in paragraph 2.4 of the aforesaid Master Circular should be adhered to by all the banks.

Yours faithfully,

(B. Mahapatra)
Chief General Manager-in-Charge

Extract from Second Quarter Review of Monetary Policy 2010-11 announced on November 2, 2010.

V. **Regulatory and Supervisory Measures for Commercial Banks**

Strengthening the Resilience of the Banking Sector

100. The Basel Committee on Banking Supervision (BCBS), in response to the financial crisis, submitted a report to the G-20 in October 2010. The report contained the measures taken by the BCBS and its governing body - the Group of Central Bank Governors and Heads of Supervision (GHOS) - to strengthen the resilience of banks and the global banking system. The new global standards to address both bank-specific and broader systemic risks have been referred to as Basel III. Measures suggested under Basel III, among others, include revisions to the definition of regulatory capital, capital conservation buffer, counter-cyclical buffer, the treatment of counterparty credit risk, the leverage ratio, and the global liquidity standards.

101. It may be recalled that the BCBS had issued in December 2009 two consultative documents for public comments. It also undertook a comprehensive quantitative impact study (QIS) and top-down calibration of minimum capital requirement. At its July and September 2010 meetings, the GHOS broadly agreed on the overall design of the capital and liquidity reform package, based on the comments received, the QIS and top-down calibration. The fully calibrated Basel III rules will be published by the BCBS by end-December 2010.

102. The Reserve Bank has been adopting the international best regulatory practices as appropriate to banks in India. Banks are, therefore, advised :

* to study the new developments and be in preparedness to meet the requirements; and

* to continue with the parallel run beyond March 31, 2010, as advised to them in April 2010, to ensure that their Basel II minimum capital requirement continues to be higher than the prudential floor of 80 per cent of the minimum capital requirement as per Basel I framework for credit and market risks. The parallel run should continue for a period of three years, i.e., till March 31, 2013, subject to review.

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