RBI /2008-09 / 218
DBOD.No.BP.BC.57 / 21.04.157 / 2008 – 09

October 13, 2008

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

Dear Sirs,

Prudential Norms for Off-balance Sheet Exposures of Banks

Please refer to our circular RBI/2008-09/125. DBOD.No.BP.BC.31/21.04.157/ 2008-09 dated August 8, 2008 on the captioned subject.

2. The issues regarding asset classification status of overdue payments in respect of derivative transactions and re-structuring of derivative contracts have been examined, and it is advised as under:

2.1 2.1 Asset Classification

i) The overdue receivables representing positive mark-to-market value of a derivative contract will be treated as a non-performing asset, if these remain unpaid for 90 days or more. In that case all other funded facilities granted to the client shall also be classified as non-performing asset following the principle of borrower-wise classification as per the existing asset classification norms.

ii) If the client concerned is also a borrower of the bank enjoying a Cash Credit or Overdraft facility from the bank, the receivables mentioned at item (i) above may be debited to that account on due date and the impact of its non-payment would be reflected in the cash credit/overdraft facility account. The principle of borrower-wise asset classification would be applicable here also, as per extant norms.

iii) In cases where the contract provides for settlement of the current mark-to-market value of a derivative contract before its maturity, only the current credit exposure (not the potential future exposure) will be classified as a non-performing asset after an overdue period of 90 days.

iv) As the overdue receivables mentioned above would represent unrealised income already booked by the bank on accrual basis, after 90 days of overdue period, the amount already taken to 'Profit and Loss a/c' should be reversed and held in a 'Suspense a/c' in the same manner as is done in the case of overdue advances.

2.2 2.2 Re-structuring of derivative contracts

In cases where a derivative contract is restructured, the mark-to-market value of the contract on the date of restructuring should be cash settled. For this purpose, any change in any of the parameters of the original contract would be treated as a restructuring.

3. These instructions will also be applicable to the foreign branches of Indian banks.

Yours faithfully,

(**Prashant Saran**)
Chief General Manager-In-Charge