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CAIIB PAPER-2

Module-D Unit-2

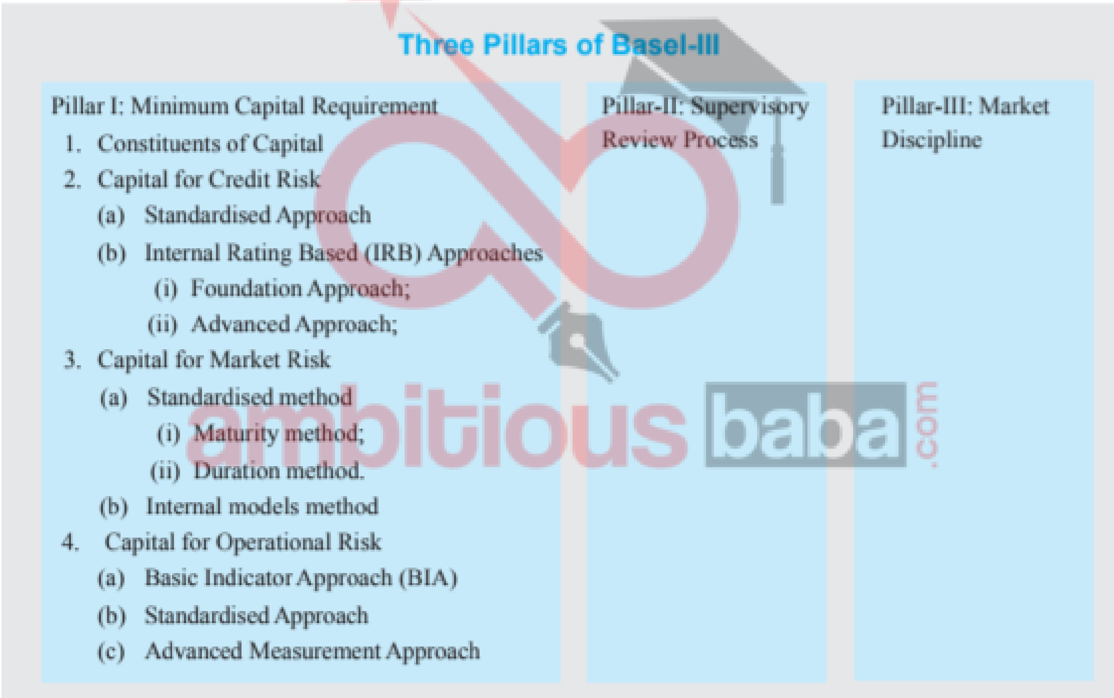
Bank Financial Management(BFM)

CAIIB Paper 2 (BFM) Module D Unit 2: Capital Adequacy – The Basel Norms

Scope Of Application

- The revised capital adequacy norms are applicable uniformly to all Commercial Banks (except Cooperative Banks, Local Area Banks and Regional Rural Banks), both at the solo level (global position) as well as at the consolidated level. A Consolidated bank is defined as a group of entities where a licensed bank is the controlling entity.
- A consolidated bank will include all group entities under its control, except the exempted entities. A consolidated bank may exclude group companies, which are engaged in insurance business and businesses not pertaining to financial services. A consolidated bank should maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) as applicable to a bank on an ongoing basis.

Three Pillars of Basel-III



PILLAR-I: Minimum Capital Requirements

- The capital ratio continues to be calculated using the definition of regulatory capital and risk-weighted assets. The definition of eligible regulatory capital largely continues to be as **defined in the earlier accord of 1988** and amended to include Tier-III capital as prescribed **in January 96 and September 97.**
- Thus the term capital would include Tier-I or core capital, Tier-II or supplemental capital, and Tier-III capital. Tier- III capital, provided under the Basel II guidelines which took care of market risk of the banks, has since been

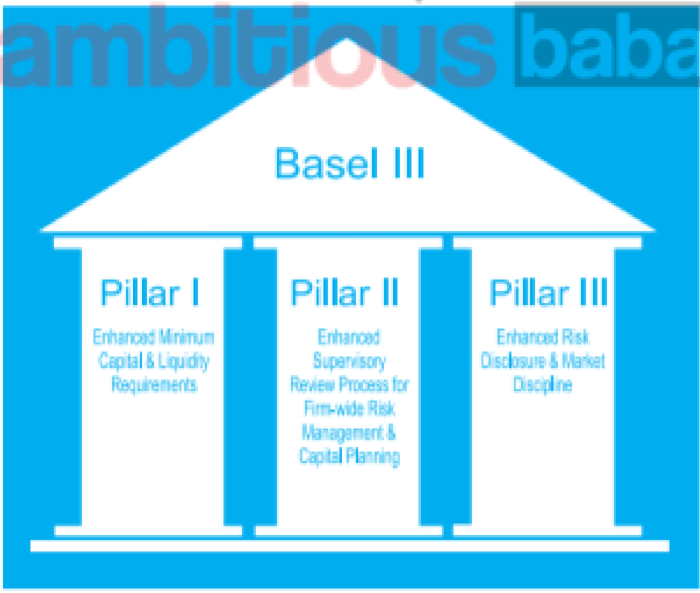
phased out with the introduction of Basel III guidelines. **The total capital ratio must not be lower than 8% (9% in India).**

- **Core capital consists of paid up capital, free reserves and unal**located surpluses, less specified deductions. Any capital requirement arising in respect of credit and counter¬party risk needs to be met by Tier-I and Tier-II capital. Supplementary capital comprises subordinated debt of more than five years' maturity, loan loss reserves, revaluation reserves (which is now part of Tier-I capital in India), investment fluctuation reserves, and limited life preference shares. **Tier-II capital is restricted to 100% of Tier-I capital as before**.
- The scope of risk weighted assets is expanded to include certain additional aspects of market risk and also operational risk. The area of operational risk is brought under the ambit of risk-weighted assets for the first time. **Total risk weighted assets include the capital requirement for market risk and operational risk multiplied by 12.5,** i.e. reciprocal of **the minimum capital requirement of 8% along with risk weighted assets for credit risk.**

Total Risk weighted assets = Risk weighted assets for credit risk +12.5*Capital requirement for market risk+12.5*Capital requirement for operational risk. The individual component of risk-weighted assets is dealt with in detail in Module B, (Risk Management).

Thus the Basel-III accord, which has undergone a subtle change from Basel II, does not merely prescribe minimum capital requirement, but envisages processes of supervisory review and market discipline. The revised framework is more risk sensitive than the 1988 accord. There are incentives for those banks, which have better risk management capabilities.

The Three Pillars of Basel III is given in the form of a diagram below:



PILLAR 2 – Supervisory Review Process

The capital adequacy ratio prescribed by the RBI under the Pillar 1 of the Framework is only the regulatory minimum level, addressing only the three specified risks (viz., credit, market and operational risks) and holding additional capital might be necessary for the banks, on account of

The possibility of some underestimation of risks under the Pillar 1 and The actual risk exposure of a bank vis-a-vis the quality of its risk management architecture. Illustratively, some of the risks that the banks are generally exposed to, but which are not ***captured or not fully captured in the regulatory CRAR would include:***

- Interest rate risk in the banking book, which is part of market risk.
- Credit concentration risk, which is normally part of credit risk.
- Liquidity risk, for convenience sake included as part of market risk.
- Settlement risk, which is also called as counter-party risk and is part of credit risk.
- Reputational risk, which is equivalent to operational risk.
- Strategic risk, which is equivalent to operational risk.
- Risk of under-estimation of credit risk under the Standardised approach – Credit risk.
- "Model risk" i.e., the risk of under-estimation of credit risk under the IRB approaches – Credit risk.
- Risk of weakness in the credit-risk mitigants – Credit risk.
- Residual risk of securitisation, etc. – can be part of Credit and Market risk.
- Climate Risk
- Payment & Settlement Risk

It is therefore, only appropriate that the banks make their own assessment of their various risk exposures, through a well-defined internal process, and maintain an adequate capital cushion for such risks. Further it is recognised that there is no one single approach for conducting the ICAAP and the market consensus in regard to the best practice for undertaking ICAAP, which is yet to emerge.

The ICAAP document should include the capital adequacy assessment and projections of capital requirement for the ensuing year, along with the plans and strategies for meeting the capital requirement and should also be approved by the Board.

Guidelines for the SRP of the RBI and the ICAAP of the Banks

While the Basel-I framework was confined to the prescription of only minimum capital requirements for banks, the Basel-II framework expanded this approach not only to capture certain additional risks in the minimum capital ratio, but also includes two additional areas – the Supervisory Review Process and Market Discipline through increased disclosure requirements for banks. The Basel III framework has also maintained the same approach. Thus,

The Basel Capital Adequacy Framework rests on the following three mutually-reinforcing pillars:

- **Pillar 1: Minimum Capital Requirements** – which prescribes a risk-sensitive calculation of capital requirements that, for the first time, explicitly includes operational risk in addition to market and credit risk.
- **Pillar 2: Supervisory Review Process (SRP**) – which envisages the establishment of suitable risk management systems in banks and their review by the supervisory authority.
- **Pillar 3: Market Discipline** – which seeks to achieve increased transparency through expanded disclosure requirements for banks.

The Basel Committee has also laid down the following four key principles in regard to the SRP envisaged under Pillar 2:

- **Principle 1**: Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.
- **Principle 2:** Supervisors should review and evaluate the banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with the regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.
- **Principle 3:** Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require the banks to hold capital in excess of the minimum.
- **Principle 4:** Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

Banks' Responsibilities

- Banks should have in place a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels (Principle 1)
- Banks should operate above the minimum regulatory capital ratios (Principle 3)

Supervisors' Responsibilities

- Supervisors should review and evaluate a bank's ICAAP. (Principle 2)
- Supervisors should take appropriate action if they are not satisfied with the results of this process. (Principle 2)
- Supervisors should review and evaluate a bank's compliance with the regulatory capital ratios. (Principle2)
- Supervisors should have the ability to require banks to hold capital in excess of the minimum. (Principle 3)
- Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels. (Principle 4)
- Supervisors should require rapid remedial action if capital is not maintained or restored. (Principle 4)

ICAAP to be a Forward-looking Process

- The ICAAP should be forward looking in nature, and thus, should take into account the expected/ estimated future developments such as strategic plans, macro-economic factors, etc., including the likely future constraints in the availability and use of capital.
- As a minimum, the management of a bank shall develop and maintain an appropriate strategy that would ensure that the bank maintains adequate capital commensurate with the nature, scope, scale, complexity and risks inherent in the bank's on-balancesheet and off-balance-sheet activities, and should demonstrate as to how the strategy dovetails with the macro-economic factors.
- Thus, the banks shall have an explicit, Board-approved capital plan which should spell out the institution's objectives in regard to level of capital, the time horizon for achieving those objectives, and in broad terms, the capital planning process and the allocate responsibilities for that process.

The plan shall outline:

- The bank's capital needs;
- The bank's anticipated capital utilisation;
- The bank's desired level of capital;
- Limits related to capital;
- A general contingency plan for dealing with divergences and unexpected events.

ICAAP to be a Risk-based Process

- The adequacy of a bank's capital is a function of its risk profile. Banks shall, therefore, set their capital targets, which are consistent with their risk profile and operating environment.
- At a minimum, a bank shall have in place a sound ICAAP, which shall include all material risk exposures incurred by the bank. There are some types of risks (such as reputation risk and strategic risk) which are less readily quantifiable; for such risks, the focus of the ICAAP should be more on qualitative assessment, risk management and mitigation than on quantification of such risks.
- Banks' ICAAP document should clearly indicate the risks for which a quantitative measure is warranted, and the risks for which a qualitative measure is considered to be the correct approach.

An Illustrative Outline of the ICAAP Document

What is an ICAAP document?

- The ICAAP Document would be a comprehensive paper furnishing detailed information on the ongoing assessment of the bank's entire spectrum of risks, how the bank intends to mitigate those risks and how much current and future capital is necessary for the bank, reckoning other mitigating factors.
- The purpose of the ICAAP document is to apprise the Board of the bank on these aspects as also to explain to the RBI the bank's internal capital adequacy

assessment process and the banks' approach to capital management. The ICAAP could also be based on the existing internal documentation of the bank.
- The ICAAP document submitted to the RBI should be formally approved by the bank's Board. It is expected that the document would be prepared in a format that would be easily understood at the senior levels of management and would contain all the relevant information necessary for the bank and the RBI to make an informed judgment as to the appropriate capital level of the bank and its risk management approach.
- Where appropriate, technical information on risk measurement methodologies, capital models, if any, used and all other work carried out to validate the approach (e.g. board papers and minutes, internal or external reviews) could be furnished to the RBI as appendices to the ICAAP Document.

Contents

The ICAAP Document should contain the following sections:

- Executive Summary
- Background
- Summary of Current and Projected Financial and Capital Positions
- Capital Adequacy
- Firm-wide Rick Oversight and Specific Aspects of Risk Management
- Key Sensitivities and Future Scenarios
- Aggregation and Diversification
- Testing and Adoption of the ICAAP
- Use of the ICAAP within the Bank

PILLAR 3 – Market Discipline

- Banks' disclosures should be consistent with how senior management and the Board of directors assess and manage the risks of the bank. Under Pillar 1, banks use specified approaches/methodologies for measuring the various risks they face and the resulting capital requirements.
- The key idea behind various types of disclosures by banks to the market is to make the market, when it possesses full and critical information about a bank, a disciplinary agent thereby exercising a salutary effect on the bank in particular and the market in general.
- Market Discipline leads to better Corporate Governance. Corporate governance is the system of rules, practices and processes by which a company/bank is directed and controlled. Market discipline contributes to a safe and sound banking environment. That is the reason the 19th Century Victorian Banker and Economist Walter Bagehot said,' A well-run bank needs no capital. No amount of capital will rescue a badly run bank'.

Guiding Principles for Banks' Pillar 3 Disclosures

The Basel Committee on Banking Supervision (BCBS) has agreed upon the following five guiding principles on Pillar 3 disclosures:

- Principle 1: Disclosures should be clear.
- Principle 2: Disclosures should be comprehensive.
- Principle 3: Disclosures should be meaningful to users.
- Principle 4: Disclosures should be consistent over time.
- Principle 5: Disclosures should be comparable across banks.

Scope and Frequency of Disclosures

Pillar 3 applies at the top on consolidated level of the banking group to which the Capital Adequacy Framework applies. Disclosures related to individual banks within the groups would not generally be required to be made by the parent bank. An exception to this arises in the disclosure of capital ratios by the top consolidated entity where an analysis of significant bank subsidiaries within the group is appropriate, in order to recognise the need for these subsidiaries to comply with the Framework and other applicable limitations on the transfer of funds or capital within the group. Pillar 3 disclosures will be required to be made by the individual banks on a stand-alone basis when they are not the top consolidated entity in the banking group. Banks are required to make Pillar 3 disclosures at least on a half yearly basis, irrespective of whether financial statements are audited, with the exception of following disclosures:

- Capital Adequacy;
- Credit Risk: General Disclosures for All Banks; and
- Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach.

The disclosures as indicated at (i), (ii) and (iii) above will be made at least on a quarterly basis by banks.

All disclosures must either be included in a bank's published financial results/statements or, at a minimum, must be disclosed on bank's website. If a bank finds it operationally inconvenient to make these disclosures along with published financial results/statements, the bank must provide in these financial results/statements, a direct link to where the Pillar 3 disclosures can be found on the bank's website. The Pillar 3 disclosures should be made concurrent with publication of financial results/statements. A common template is to be used by banks to report the details of their regulatory capital after March 31, 2017 which is designed to meet the Basel III requirement to disclose all regulatory adjustments.

Validation

The disclosures should be subjected to adequate validation. Since information in the annual financial statements would generally be audited, the additional material published with such statements must be consistent with the audited statements. In addition, supplementary material (such as Management's Discussion and Analysis) that is published should also be subjected to sufficient scrutiny (e.g., internal control assessments, etc.) to satisfy the validation issue. Presently, Pillar 3 disclosures will not be required to be audited by an external auditor, unless specified.

Materiality

A bank should decide which disclosures are relevant for it based on the materiality concept. Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Proprietary and Confidential Information

Proprietary information encompasses information (for example on products or systems), that if shared with competitors would render a bank's investment in these products/systems less valuable, and hence would undermine its competitive position. Information about customers is often confidential, in that it is provided under the terms of a legal agreement or counterparty relationship.

General Disclosure Principle

Banks should have a formal disclosure policy approved by the Board of Directors that addresses the banks' approach for determining what disclosures they will make, the internal controls over the disclosure process and the process for assessing the appropriateness of disclosures including validation and frequency.

Presentation of the Disclosure Requirements

The disclosure requirements are presented either in the form of templates or of tables. Templates must be completed with quantitative data in accordance with the definitions provided. Tables generally relate to qualitative requirements, but quantitative information is also required in some instances. Banks may choose the format they prefer when presenting the information requested in tables. The Master Circular on Basel III Regulations issued by Reserve Bank of India has prescribed the following disclosure tables;

Name of the head of the banking group to which the framework applies

Name of the entity/ Country of incorporation	Whether the entity is included under accounting scope of consolidation (yes/no)	Explain the method of consolida-tion	Whether the entity is included under regulatory scope of consolida-tion 225 (yes/no)	Explain the method of consolida-tion	Explain the reasons for difference in the method of consoli-dation	Explain the reasons if consolidated under only one of the scopes of consolida-tion 226

Qualitative Disclosures:

- List of group entities considered for consolidation
- List of group entities not considered for consolidation both under the accounting and regulatory scope of consolidation

Quantitative Disclosures:

List of group entities considered for consolidation

Name of the entity/country of incorporation	Principal activity of the entity	Total balance sheet equity *(as stated in the accounting balance sheet of the legal entity)*	Total balance sheet assets *(as stated in the accounting balance sheet of the legal entity)*

The aggregate amount of capital deficiencies in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:

Name of the subsidiaries/ country of incorporation	Principal activity of the entity	Total balance sheet equity *(as stated in the accounting balance sheet of the legal entity)*	% of bank's holding in the total equity	Capital deficiencies

The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted

Name of the subsidiaries/ country of incorporation	Principal activity of the entity	Total balance sheet equity *(as stated in the accounting balance sheet of the legal entity)*	% of bank's holding in the total equity/ proportion of voting power	Quantitative impact on regulatory country capital of using risk weighting method versus using the full deduction method

Any restrictions or impediments on transfer of funds or regulatory capital within the banking group:

Table DF-2: Capital Adequacy

Qualitative disclosures

Asummary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities

Quantitative disclosures

(a) Capital requirements for credit risk:
- Portfolios subject to standardised approach
- Securitisation exposures

(b) Capital requirements for market risk:
- Standardised duration approach;
  - Interest rate risk
  - Foreign exchange risk (including gold)
  - Equity risk

(c) Capital requirements for operational risk:
- Basic Indicator Approach
- The Standardised Approach (if applicable)

(d) Common Equity Tier 1, Tier 1and Total Capital ratios:
- For the top consolidated group; and
- For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied)

Table DF-3: Credit Risk: General Disclosures for all Banks

Qualitative Disclosures

The general qualitative disclosure requirement with respect to credit risk, including:

- Definitions of past due and impaired (for accounting purposes);
- Discussion of the bank's credit risk management policy.

Quantitative Disclosures

(a) Total gross credit risk exposures[228], Fund based and Non-fund based separately.

(b) Geographic distribution of exposures[229], Fund based and Non-fund based separately

- Overseas
- Domestic

(c) Industry[230] type distribution of exposures, fund based and non-fund based separately

(d) Residual contractual maturity breakdown of assets,[231]

(e) Amount of NPAs (Gross)

- Substandard
- Doubtful 1
- Doubtful 2
- Doubtful 3
- Loss

(f) Net NPAs

(g) NPA Ratios

- Gross NPAs to gross advances
- Net NPAs to net advances

(h) Movement of NPAs (Gross)

- Opening balance
- Additions
- Reductions
- Closing balance

(i) Movement of provisions (Separate disclosure shall be made for specific provisions and general provisions held by the bank with a description of each type of provisions held)

- Opening balance
- Provisions made during the period
- Write-off
- Write-back of excess provisions
- Any other adjustments, including transfers between provisions
- Closing balance

In addition, write-offs and recoveries that have been booked directly to the income statement should be disclosed separately.

(j) Amount of Non-Performing Investments

(k) Amount of provisions held for non-performing investments

(l) Movement of provisions for depreciation on investments
- Opening balance
- Provisions made during the period
- Write-off
- Write-back of excess provisions
- Closing balance

(m) By major industry or counterparty type:
- Amount of NPAs and if available, past due loans, provided separately;
- Specific and general provisions; and
- Specific provisions and write-offs during the current period.

In addition, banks are encouraged also to provide an analysis of the ageing of past-due loans.

(n) Amount of NPAs and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general provisions related to each geographical area. The portion of general provisions that is not allocated to a geographical area should be disclosed separately.

Table DF-4: Credit Risk: Disclosures for Portfolios – Subject to the Standardised Approach

Qualitative Disclosures

For portfolios under the standardised approach:
- Names of credit rating agencies used, plus reasons for any changes;
- Types of exposure for which each agency is used; and
- Adescription of the process used to transfer public issue ratings onto comparable assets in the banking book.

Quantitative Disclosures

For exposure[232] amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in the following three major risk buckets as well as those that are deducted;
- Below 100 % risk weight
- 100 % risk weight
- More than 100 % risk weight
- Deducted

Table DF-5: Credit Risk Mitigation: Disclosures for Standardised approaches

Qualitative Disclosures

The general qualitative disclosure requirement with respect to credit risk mitigation including: ***a) Policiesand processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;***
- policies and processes for collateral valuation and management;
- a description of the main types of collateral taken by the bank;
- the main types of guarantor counterparty and their credit worthiness; and
- information about (market or credit) risk concentrations within the mitigation taken

Quantitative Disclosures

(a) For each separately disclosed credit risk portfolio the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.

(b) For each separately disclosed portfolio the total exposure (after, where applicable, on- or off-balancesheet netting) that is covered by guarantees/credit derivatives (whenever specifically permitted by RBI)

Table DF-6: Securitisation Exposures: Disclosure for Standardised Approach

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to securitisation including a discussion of:

- the bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities.
- the nature of other risks (e.g. liquidity risk) inherent in securitised assets.
- the various roles played by the bank in the securitisation process (For example: origin tor, investor, servicer, provider of credit enhancement, liquidity provider, swap provider@, protection provider#) and an indication of the extent of the bank's involvement in each of them.
- a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures (for example, how the behaviour of the underlying assets impacts securitisation exposures as defined in paragraph 5.16.1 of Basel III Capital Regulations).
- a description of the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures;
- A bank may have provided support to a securitisation structure in the form of an interest rate swap or currency swap to mitigate the interest rate/currency risk of the underlying assets, if permitted as per regulatory rules.
- A bank may provide credit protection to a securitisation transaction through guarantees, credit derivatives or any other similar product, if permitted as per regulatory rules.

(b) Summary of the bank's accounting policies for securitisation activities, including:
- whether the transactions are treated as sales or financings;
- methods and key assumptions (including inputs) applied in valuing positions retained or purchased
- changes in methods and key assumptions from the previous period and impact of the changes;
- policies for recognising liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitised assets.

(c) In the banking book, the names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used.

Quantitative Disclosures: Banking Book

(a) The total amount of exposures securitised by the bank.
(b) For exposures securitised losses recognised by the bank during the current period broken by the exposure type (e.g. Credit cards, housing loans, auto loans etc. detailed by underlying security).
(c) Amount of assets intended to be securitised within a year.
(d) Of (f), amount of assets originated within a year before securitisation.
(e) The total amount of exposures securitised (by exposure type) and unrecognised gain or losses on sale by exposure type.
(f) Aggregate amount of:
- on-balance sheet securitisation exposures retained or purchased broken down by exposure type and
- off-balance sheet securitisation exposures broken down by exposure type

(g) (i) Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach
(ii) Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital (by exposure type).

Quantitative Disclosures: Trading Book

(a) Aggregate amount of exposures securitised by the bank for which the bank has retained some exposures and which is subject to the market risk approach, by exposure type.
(b) Aggregate amount of:
- on-balance sheet securitisation exposures retained or purchased broken down by exposure type; and
- off-balance sheet securitisation exposures broken down by exposure type.

(c) Aggregate amount of securitisation exposures retained or purchased separately for:
- securitisation exposures retained or purchased subject to Comprehensive Risk Measure for specific risk; and
- securitisation exposures subject to the securitisation framework for specific risk broken down into different risk weight bands.

Table DF-7: Market risk in trading Book

Qualitative disclosures

The general qualitative disclosure requirement for market risk including the portfolios covered by the standardised approach.

Quantitative disclosures

The capital requirements for:

- interest rate risk;
- equity position risk; and
- foreign exchange risk.

Table DF-8: Operational risk

Qualitative disclosures

In addition to the general qualitative disclosure requirement, the approach(es) for operational risk capital assessment for which the bank qualifies.

Table DF-9: Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosures

The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.

Quantitative Disclosures

The increase (decline) in earnings and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken downby currency (where the turnover is more than 5% of the total turnover).

Table DF-10: General Disclosure for exposures related to counter party credit risk.

Qualitative Disclosures

The general qualitative disclosure requirement with respect to derivatives and CCR, including:

- Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures;
- Discussion of policies for securing collateral and establishing credit reserves;
- Discussion of policies with respect to wrong-way risk exposures;
- Discussion of the impact of the amount of collateral the bank would have to provide given a credit rating downgrade.

Quantitative Disclosures

(a) Gross positive fair value of contracts, netting benefits[234], netted current credit exposure, collateral held (including type, e.g. cash, government securities, etc.), and net derivatives credit exposure[235]. Also report measures for exposure at default, or exposure amount, under CEM. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure[236].

(b) Credit derivative transactions that create exposures to CCR (notional value), segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used[237], broken down further by protection bought and sold within each product group

The Master Circular issued by Reserve Bank of India also contains other details required to be disclosed by the Banks. It may be noted that beyond disclosure requirements as set forth in these guidelines, banks are responsible for conveying their actual risk profile to market participants. The information banks disclose must be adequate to fulfil this objective. In addition to the specific disclosure requirements as set out in the guidelines, banks operating in India should also make additional disclosures in the following areas:

- Securitisation exposures in the trading book;
- Sponsorship of off-balance sheet vehicles;
- Valuation with regard to securitisation exposures; and
- Pipeline and warehousing risks with regard to securitisation exposures.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