

April 27, 2007

The Chairman/Chief Executive Officer  
All Commercial Banks  
(excluding LABs & RRBs)

Dear Sir,

**Prudential Guidelines on Capital Adequacy and Market Discipline –  
Implementation of the New Capital Adequacy Framework**

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Please refer to our letter DBOD.No.BP.1151/21.06.001/2006-07 dated March 20, 2007 forwarding the revised draft guidelines for implementation of the New Capital Adequacy Framework (Revised Framework) for comments/feedback. On the basis of the feedback received, the guidelines have been finalised and furnished in the Annex for implementation.

*Effective Date*

2. Foreign banks operating in India and Indian banks having operational presence outside India should adopt Standardised Approach (SA) for credit risk and Basic Indicator Approach (BIA) for operational risk for computing their capital requirements under the Revised Framework with effect from **March 31, 2008**. All other commercial banks (excluding Local Area Banks and Regional Rural Banks) are encouraged to migrate to these approaches under the Revised Framework in alignment with them but in any case not later than **March 31, 2009**. These banks shall continue to apply the Standardised Duration Approach (SDA) for computing capital requirement for market risks under the Revised Framework.

*Parallel run*

3. With a view to ensuring smooth transition to the Revised Framework and with a view to providing opportunity to banks to streamline their systems and strategies, banks were advised to have a parallel run of the revised Framework. A copy of the quarterly reports to the Board of Directors may be continued to be submitted to the Reserve Bank of India – one each to the Department of Banking Supervision, Central Office and the Department of Banking Operations and Development, Central Office.

*Migration to other approaches under the Revised Framework*

4. Banks are required to obtain the prior approval of the Reserve Bank to migrate to the Internal Rating Based Approach (IRBA) for credit risk and the Standardised Approach (TSA) or the Advanced Measurement Approach (AMA) for operational risk for computing regulatory capital requirements. A separate communication in this regard will be issued to banks at a later date, specifying the pre-requisites and procedure for approaching the Reserve Bank for seeking its prior approval for such migration.

Yours faithfully,

(Prashant Saran)  
Chief General Manager-in-Charge