



भारतीय रिज़र्व बँक
RESERVE BANK OF INDIA
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RBI 2009-10/132

DBOD.No.BP.BC. 33 /21.04.048/2009-10

August 27, 2009

The Chairman and Managing Directors / Chief Executive Officers
All Scheduled Commercial Banks (including Local Area Banks)
(Excluding RRBs)

Dear Sir,

Prudential Treatment in respect of Floating Provisions

Please refer to paragraph (iv) of our circular [DBOD.No.BP.BC. 118/21.04.048 /2008-09](#) dated March 25, 2009 and also, our circular [DBOD.No.BP.BC.122 /21.04.048/2008-09](#) dated April 9, 2009, in terms of which, banks have been advised that, with effect from the financial year 2009-10, floating provisions cannot be netted from gross NPAs to arrive at net NPAs, but could be reckoned as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

2. As mentioned in our circular dated April 9, 2009, the Financial Stability Board (FSB), Basle Committee on Banking Supervision (BCBS) and Committee on Global Financial System (CGFS), along with accounting standard setters, are working out detailed measures to mitigate procyclicality, including a counter cyclical provisioning regime based on macro-prudential considerations. This work is likely to take some more time.

3. As and when the existing provisioning norms are modified based on the above work in progress, a fresh look in the matter will have to be taken. In view of this, it has been decided to defer the implementation of paragraph (iv) of the circular dated March 25, 2009 *ibid* until further advice. Accordingly, banks will continue to have the

Department of Banking Operations and Development, Central Office, 12th floor, C.O. Building, Mumbai – 400 001
Tel No: (91-22) 22601000 /Fax No. (91-22) 22705691 Email ID:cgmicdbodco@rbi.org.in

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1. TMU, 3/4, f-2, A, cel, 0S, o, f10

choice between deducting their existing floating provisions from gross NPAs to arrive at net NPAs or reckoning it as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

Yours faithfully

(B. Mahapatra)
Chief General Manager