



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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09 July 2012

The Chief Executive Officers
Foreign Banks Operating in India

Dear Sir,

Prudential Guidelines on Capital Adequacy – Treatment of Head Office Debit Balance – Foreign Banks

A reference is invited to the paragraph 4.2.3 - Notes (iv) of the [Master Circular on Capital Adequacy and Market Discipline- New Capital Adequacy Framework \(NCAF\) dated July 2, 2012](#), wherein it is mentioned that 'the net credit balance, if any, in the inter-office account with Head Office/overseas branches will not be reckoned as capital funds. However, *any debit balance in the Head Office account will have to be set-off against capital.*'

2. A few banks represented that debit balances in the Head Office account due to placements with the Head Office/overseas branches may happen as a part of normal banking business and complete denial of such exposure may not be practical and consistent with the principle of non-disruptive regulation. Accordingly, the matter has been examined and it is advised that:

- i. If net overseas placements with Head Office/other overseas branches/other group entities (Placement minus borrowings, excluding Head Office borrowings for Tier I and II capital purposes) exceed 10% of the bank's minimum CRAR requirement, the amount in excess of this limit would be deducted from Tier I capital.
- ii. For the purpose of the above prudential cap, the net overseas placement would be the higher of the overseas placements as on date and the average daily outstanding over year to date.



iii. The overall cap on such placements/investments will continue to be guided by the present regulatory and statutory restrictions i.e. net open position limit and the gap limits approved by the Reserve Bank of India, and Section 25 of the Banking Regulation Act, 1949. All such transactions should also be in conformity with other FEMA guidelines.

3. These guidelines will be effective from September 30, 2012.

Yours faithfully,

(Deepak Singhal)
Chief General Manager-in-Charge