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RESERVE BANK OF INDIA
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Reserve Bank of India (Commercial Banks - Minimum Capital Requirements for Market Risk) Directions, 2026

Table of Contents

In exercise of the powers conferred under Section 35 A of the Banking Regulation Act, 1949 (hereinafter called the Act), the Reserve Bank of India (hereinafter called the Reserve Bank), being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter-I: Preliminary

A. Short title and Effective Date

1. These Directions shall be called the Reserve Bank of India (Commercial Banks - Minimum Capital Requirements for Market Risk) Directions, 2026.

2. These Directions shall come into effect from April 1, 2027.

B. Applicability

3. These Directions shall apply to all Commercial Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

For the purpose of these Directions, 'Commercial Banks' means banking companies (other than Small Finance Banks, Payments Banks, and Local Area Banks), corresponding new banks, and the State Bank of India, as defined respectively under clauses (c), (da), and (nc) of Section 5 of the Banking Regulation Act, 1949.

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them as under:

(1) **"Internal risk transfer"** means an internal written record of a transfer of risk between the banking book and the trading book, or between the GIRR internal risk transfer desk and the trading book (as per the alternate approach in paragraph 20), or between the CVA portfolio and the trading book (as per paragraphs 23 to 25), done via internal derivatives trades.

The treatment of internal risk transfer in paragraphs 11 to 25 does not apply to internal transfer of securities between the trading book and the banking book which shall be considered as reclassification of securities and is governed by the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025 and Section B of Chapter II of these Directions.

(2) **"General Market Risk Capital Requirement"** means the capital requirement

designed to capture the risk of loss arising from changes in market prices.

(3) **"Market risk"** means the risk of losses in on-balance sheet and off-balance-sheet positions arising from movements in market prices.

(4) **"Specific Risk capital requirement"** means the capital requirement designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as commonly used in commercial parlance, as the case may be.

Chapter-II: Boundary between the banking book and the trading book

A. Scope of the trading book

6. Trading book, for the purpose of capital adequacy, shall include all instruments that are classified as 'Held for Trading' as per Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025. All other items shall be included in the banking book and attract corresponding capital charge for credit risk (or counterparty credit risk, where applicable). Accordingly, instruments classified under HTM, AFS, FVTPL (non-HFT), and investments in own subsidiaries, joint ventures and associates shall be part of the banking book and shall not attract market risk capital charge, except as per paragraphs 16 and 26(2).

B. Restrictions on reclassifying instruments between the regulatory books

7. In addition to the conditions set out in paragraph 41 and Chapter VII of the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025, any reclassification of instruments between the trading book and the banking book after initial designation shall be subject to the provisions of paragraphs 8 to 10 below. Restrictions as per Chapter VII of the Directions *ibid* also apply to reclassification between FVTPL (HFT) and FVTPL (non-HFT) sub-categories.

8. A bank shall not reclassify instruments between the trading book and the banking book for regulatory arbitrage, i.e., with the intention of achieving lower capital requirements.

9. In case the instrument has been reclassified between the trading book and the banking book, regardless of whether the reclassification has been made at the discretion of the bank or is beyond the bank's control (for example, in case of delisting of an equity), a bank shall:

(1) determine its total capital requirement (for both banking book and trading book) immediately before and after the reclassification; and

(2) if the bank's total capital requirement is reduced as a result of reclassification, the bank shall maintain the difference as a disclosed Pillar 1 capital surcharge, in addition to the capital requirements of the book into which the

instruments have been reclassified. A bank is not required to calculate the Pillar 1 capital surcharge on an ongoing basis.

10. A bank may factor in a run-off to the surcharge referred in paragraph 9(2) above as such positions mature, expire or are sold / terminated, in a manner agreed with the Department of Supervision, RBI.

C. Treatment of internal risk transfers

11. A bank shall not take into account any internal risk transfers from the trading book to the banking book when determining the regulatory capital requirements.

12. For internal risk transfers from the banking book to the trading book, provisions of paragraphs 13 to 21 shall apply. A bank may refer to paragraph 109 of the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025, for the accounting treatment of internal risk transfers.

C.1 Internal risk transfer of credit risk from banking book to trading book

13. A bank can hedge risk in the banking book either directly through an external hedge or through internal risk transfer. When a bank hedges a banking book credit risk exposure using a hedging instrument purchased in its trading book (i.e., using an internal risk transfer),

(1) The credit exposure in the banking book is deemed to be hedged for capital requirement purposes, if and only if:

(i) the trading book enters into an external hedge with an eligible third-party protection provider that exactly matches the internal risk transfer; and

(ii) the external hedge meets the requirements of paragraph 128 of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025, vis-à-vis the banking book exposure. With respect to paragraph 128(5)(iv) of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025, the cap of 60 per cent on a credit derivative without a restructuring obligation only applies with regard to recognition of credit risk mitigation of the banking book instrument for regulatory capital purposes and not with regard to the amount of the internal risk transfer.

(2) External hedges for the purposes of paragraph 13(1) can be made up of multiple transactions with multiple counterparties as long as the aggregate external hedge exactly matches the internal risk transfer, and the internal risk transfer exactly matches the aggregate external hedge.

14. Where the requirements in paragraph 13 are fulfilled, the banking book exposure is deemed to be hedged by the banking book leg of the internal risk transfer for capital purposes in the banking book. Moreover, both the trading book leg of the internal risk transfer and the external hedge shall be reckoned for the market risk capital requirements.

15. Where the requirements in paragraph 13 are not fulfilled, the banking book exposure is not deemed to be hedged by the banking book leg of the internal risk transfer for capital purposes in the banking book. Moreover, the third-party external hedge shall be fully included in the market risk capital requirements and the trading book leg of the internal risk transfer shall be fully excluded from the market risk capital requirements. Similar treatment applies for general interest rate risk transfer, in case the conditions in paragraph 17 are not met.

16. A banking book short credit position created by an internal risk transfer and not capitalised under the banking book rules shall be capitalised under the market risk rules together with the trading book exposure. Banking book instruments that are over-hedged by their respective documented internal risk transfers create a short (risk) position in the banking book.

C.2 Internal risk transfer of general interest rate risk (GIRR) from banking book to trading book

17. When a bank hedges a banking book interest rate risk exposure using an internal risk transfer with its trading book, the trading book leg of the internal risk transfer shall be treated as a trading book instrument under the market risk framework, if and only if:

(1) the internal risk transfer of the banking book interest rate risk that is being hedged and the sources of such risk are documented;

(2) the internal risk transfer is conducted with a dedicated ‘GIRR internal risk transfer desk’, which has been specifically approved by the Department of Supervision, RBI for this purpose; and

(3) the dedicated 'GIRR internal risk transfer desk' shall be subject to trading book capital requirements under the market risk framework on a stand-alone basis, separate from any other GIRR or other market risks generated by activities in the trading book.

18. 'GIRR internal risk transfer desk' may be treated as a notional desk where the desk need not have any traders or trading accounts assigned to it. A GIRR internal risk transfer desk shall not have any trading book positions allocated to it, except GIRR internal risk transfers between the trading book and the banking book as well as any external hedges that meet the conditions specified in paragraph 20.

19. Where the requirements in paragraph 17 are fulfilled, the banking book leg of the internal risk transfer shall be included in the banking book's measure of interest rate risk exposures for regulatory capital purposes.

20. The 'GIRR internal risk transfer desk' may include instruments purchased from the market (i.e., external parties to the bank). Such transactions may be executed directly between the 'GIRR internal risk transfer desk' and the market. Alternatively, the 'GIRR internal risk transfer desk' may obtain the external hedge from the market via trading book, if and only if, the GIRR internal risk transfer entered into with the trading book exactly matches the external hedge from the market. In this latter case, the respective legs of the GIRR internal risk transfer are included in the 'GIRR internal risk transfer desk' and trading book.

21. The trading book leg of internal risk transfers shall fulfil the same requirements as applicable to instruments in the trading book transacted with external counterparties.

C.3 Eligible hedges for the CVA capital requirement

22. Eligible external hedges that are recognised in the calculation of the credit valuation adjustment (CVA) capital requirement, as provided in the draft Reserve Bank of India (Commercial Banks – Credit Valuation Adjustment Framework) Directions, 2026, shall not attract market risk capital requirement.

23. A bank may enter into internal risk transfers between the CVA portfolio and the trading book. Such an internal risk transfer consists of a CVA portfolio side and a non-CVA portfolio side. Where the CVA portfolio side of an internal risk transfer is recognised in the CVA risk capital requirement, the CVA portfolio side shall be

excluded from the market risk capital requirement, while the non-CVA portfolio side shall be included in the market risk capital requirement.

24. Such internal CVA risk transfers shall only receive regulatory capital recognition if the internal risk transfer is documented with respect to the CVA risk being hedged and the sources of such risk.

25. Independent of the treatment in the CVA risk capital requirement and the market risk capital requirement, internal risk transfers between the CVA portfolio and the trading book may be used to hedge the counterparty credit risk exposure of a derivative instrument in the trading or banking book as long as the requirements of the external hedge similar to paragraph 13 are met.

Chapter-III: Scope of application of market risk

26. While calculating market risk capital requirements, a bank shall include:

(1) Interest rate risk and equity risk for trading book instruments; and

(2) Foreign exchange risk (including gold and precious metals) for trading book and banking book instruments.

27. A bank shall compute and maintain capital charge for market risk at both group / consolidated level and solo / standalone level. For this purpose, a bank may refer to paragraph 8 of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025.

28. Irrespective of the reporting frequency, a bank shall meet the capital requirements for market risk on a continuous basis, i.e., at the close of each business day.

29. A bank shall not apply foreign exchange risk capital requirement to any position that is deducted from the bank's regulatory capital, including a position that is hedging such a position.

30. While calculating market risk capital requirements, a bank shall not include holdings of capital instruments that are deducted from the bank's regulatory capital or risk weighted at 1250 per cent. This includes:

(1) holdings of the bank's own eligible regulatory capital instruments; and

(2) holdings of other banks' and other financial entities' eligible regulatory capital instruments, as well as intangible assets, which have been deducted from regulatory capital.

31. A bank shall not apply market risk capital requirements for securities which are a) already matured and remain unpaid; or b) have been classified as a non-performing asset / investment. Such securities shall attract capital only for credit risk.

A. Exclusion of certain structural foreign exchange positions from Net Open Position

32. A bank shall have the option to exclude certain structural foreign currency investments from the calculation of Net Open Position, on both standalone and consolidated basis.

33. The forex risk positions eligible for exclusion under paragraph 32 above shall

be structural (i.e., non-dealing) in nature, including capital investments and accumulated / unremitted surplus in overseas consolidated subsidiaries, Joint Ventures and associates, overseas branches, IFSC Banking Units, and Offshore Banking Units in Special Economic Zones denominated in foreign currencies.

34. A bank may opt to exclude structural foreign exchange positions from Net Open Position on a case-to-case basis, in a consistent manner, provided the exemption meets each of the criteria mentioned in paragraph 35 below.

35. A bank shall comply with each of the following conditions while excluding foreign exchange risk positions under paragraph 32 above:

(1) The exclusion is limited to the amount that neutralises the sensitivity of the capital ratio to movements in exchange rates.

(2) The exclusion from the calculation is made for at least six months.

(3) The establishment of a structural foreign exchange position and any changes in its position shall follow the bank's risk management policy for structural foreign exchange positions.

(4) The exclusion from the calculation shall be applied consistently, with the exclusionary treatment of the hedge remaining in place for the life of the assets or other items.

(5) The bank shall document and have available for supervisory review the positions and amounts to be excluded from market risk capital requirements.

36. A matched currency risk position will protect a bank against loss from movements in exchange rates, but will not necessarily protect its capital adequacy ratio. If a bank has its capital denominated in its domestic currency and has a portfolio of foreign currency assets and liabilities that is completely matched, its capital / asset ratio will fall if the domestic currency depreciates. By running a short risk position in the domestic currency, the bank can protect its capital adequacy ratio, although it would result in a loss in the event of appreciation of the domestic currency. An illustration of the exclusion of structural foreign currency investments from Net Open Position is provided in paragraph 37 below.

37. Illustration of exclusion of structural foreign currency investments from Net Open Position:

(1) The paragraphs below provide an example of the exclusion of structural foreign currency investments from Net Open Position. The example uses a simplified scenario and is for illustrative purposes only.

(2) A bank may adopt an alternative methodology, with reasonable assumptions, to determine its maximum Net Open Position to be excluded. The methodology shall be documented in the bank's risk management policy for structural foreign exchange positions.

(3) Assume a bank with the below balance sheet consisting of domestic currency (DC) assets / liabilities and foreign currency (FC) assets / liabilities.

(4) **Case 1**: The forex assets and liabilities are perfectly matched.

Forex Assets in FC	300	Forex Liabilities in FC	300
Exchange Rate	1		
Forex Assets in DC (a)	300	Forex Liabilities in DC (c)	300
Domestic Assets (b)	700	Domestic Liabilities (d)	540
		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1000		
Forex exposure (g = a - c)	0		
Total RWA (h=f*100%)	1000		
Capital Ratio (i = e / h)	**16.00%**		

Note: Forex Assets in Domestic Currency are calculated as Forex Assets in Foreign Currency * Exchange Rate = 300 * 1 = 300

(5) Assume that the foreign currency appreciates, with exchange rate increasing from 1 to 1.2. Although the forex assets and liabilities increase by the same percentage (20 per cent) and hence continue to be perfectly matched, the bank's capital ratio will decline since forex RWAs increase by 20 per cent, while capital amount remains unchanged.

Forex Assets in FC	300	Forex Liabilities in FC	300
Exchange Rate	1.2		
Forex Assets in DC (a)	360	Forex Liabilities in DC (c)	360
Domestic Assets (b)	700	Domestic Liabilities (d)	540

		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1060		
Forex exposure (g = a - c)	0		
Total RWA (h = f * 100%)	1060		
Capital Ratio (i = e / h)	**15.09%**		

(6) **Case 2:** The bank takes a structural long position (i.e., structural forex positions listed in paragraph 33 above) in the foreign currency (i.e., short position in the domestic currency).

Forex Assets in FC	300	Forex Liabilities in FC	200
Exchange Rate	1		
Forex Assets in DC (a)	300	Forex Liabilities in DC (c)	200
Domestic Assets (b)	700	Domestic Liabilities (d)	640
		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1000		
Forex exposure (g = a - c)	100		
Total RWA (h = f * 100%)	1000		
Capital Ratio (i = e / h)	**16.00%**		

(7) Assume that the foreign currency appreciates, with exchange rate increasing from 1 to 1.2. Forex assets and liabilities increase 20 per cent. RWAs increase from 1000 to 1060 whereas the capital amount increases from 160 to 180. Overall, the bank's capital ratio improves from 16 per cent to 16.98 per cent.

Forex Assets in FC	300	Forex Liabilities in FC	200
Exchange Rate	1.2		
Forex Assets in DC (a)	360	Forex Liabilities in DC (c)	240
Domestic Assets (b)	700	Domestic Liabilities (d)	640
		Capital (e = a + b - c - d)	180
Total Assets (f = a + b)	1060		
Forex exposure (g = a - c)	120		
Total RWA (h = f * 100%)	1060		
Capital Ratio (i = e / h)	**16.98%**		

(8) To determine the maximum amount of the risk position that can be excluded from Net Open Position, the amount of additional capital required to maintain the capital ratio unchanged, for a unit change (1 per cent) in the exchange rate is to be calculated.

Step 1

Calculate the new RWA position with the revised exchange rate. For the illustration provided in Case 2 above, assume the foreign exchange rate increases from 1 to 1.01.

Forex Assets in DC = 300 * 1.01 = 303

Domestic Assets in DC = 700

Total Assets = 303 + 700 = 1003

Total RWAs = 1003 * 100% = 1003

Step 2

Now, calculate the new capital amount required and the increase in capital amount required in order to keep the capital ratio unchanged.

Initial capital ratio = 16.00%

New capital amount required = Initial capital ratio * New Total RWAs = 16% * 1003 = 160.48

Increase in capital amount required = New capital amount required – Initial capital amount = 160.48 – 160.00 = 0.48

Step 3

Amount of structural foreign exchange position that can be excluded from Net Open Position = (Increase in capital amount required) / 1% = 0.48 / 0.01 = 48

Initial NOP from the structural foreign exchange position = Foreign currency assets - Foreign currency liabilities = 300 – 200 = 100

Hence, amount of structural foreign exchange position to be included in Net Open Position = Initial Net Open Position - Amount of structural foreign exchange position that can be excluded from Net Open Position = 100 – 48 = 52

(9) Alternate method

An alternate method which provides the same result for the maximum amount of structural foreign exchange position that can be excluded from Net Open Position is to multiply the capital ratio with the forex RWAs.

Maximum amount of structural foreign exchange position that can be excluded from Net Open Position = (Capital / Total RWAs) * Forex RWAs = (160 / 1000) * 300 = 48

38. In determining the maximum amount of exemption to structural positions as per sub-paragraphs 37 (3) to (9) above, a bank shall adhere to the following:

(i) A bank shall use the CET1 ratio on quarter end basis for calculating the maximum amount of exemption to structural positions.

(ii) Forex RWAs used in the calculation of structural exemption includes all RWAs denominated in the particular foreign currency, other than the RWAs used for calculation of forex market risk (as per section D of Chapter IV of these Directions). For operational convenience, a bank may, alternatively, include only the credit RWAs denominated in the particular foreign currency.

(iii) The amount of structural exemption in a foreign currency shall be capped at the eligible amount of structural positions in that foreign currency.

(iv) A bank shall re-calculate the amount of structural exemptions on a quarterly basis.

(v) A bank may note that the above example uses certain assumptions and simplifications (such as Risk weight = 100 per cent and equal for forex assets and domestic assets, operational RWAs not considered, etc.).

(vi) The above example considers the maximum amount of structural foreign exchange position for a single foreign currency. In practice, a bank would have to separately calculate the maximum amount of structural foreign exchange position for each foreign currency for which it seeks an exclusion from Net Open Position.

(vii) The illustration only provides the maximum amount of structural foreign exchange position that can be excluded from Net Open Position. In order to be eligible for such exclusion, a bank shall meet all the conditions mentioned in paragraphs 32 to 35 above.

Chapter-IV: Calculating risk-weighted assets for market risk

A. Risk-weighted assets and capital requirements

39. A bank shall use the simplified standardised approach (SSA) for computing risk-weighted assets for market risk. The risk-weighted assets for market risk shall be determined by multiplying the capital requirements calculated as set out in paragraph 40 by a factor of 12.5.

40. The capital requirement arising from the SSA is the simple sum of the capital requirements arising from each of the three risk classes – namely interest rate (IR) risk, equity (EQ) risk, and foreign exchange (FX) risk as detailed in the formula below,

$$Capital\ Requirement = CR_{IR} * SF_{IR} + CR_{EQ} * SF_{EQ} + CR_{FX} * SF_{FX}$$

where:

a) CR_{IR} = capital requirement prescribed for interest rate risk in Section B of this Chapter, plus additional requirements for option risks from debt instruments (non-delta risks) prescribed in Section E of this Chapter;

b) CR_{EQ}= capital requirement prescribed for equity risk in Section C of this Chapter;

c) CR_{FX} = capital requirement prescribed for foreign exchange risk in Section D of this Chapter, plus additional requirements for option risks from foreign exchange instruments (non-delta risks) prescribed in Section E of this Chapter;

d) SF_{IR} = Scaling factor of 1.30;

e) SF_{EQ} = Scaling factor of 3.50; and

f) SF_{FX}= Scaling factor of 1.20.

B. Interest rate risk

41. For measuring the market risk capital requirements for interest rate risk, a bank shall include all positions, whether long or short, in trading book instruments (including derivatives and off-balance sheet instruments), within the scope of Chapter III, whose market values are affected by change in interest rates. Such trading book instruments include, but are not limited to:

(1) fixed-rate and floating-rate debt securities and instruments that behave like them, including non-convertible preference shares and convertible securities which are traded like debt securities;

(2) derivative products as set out in paragraph 51; and

(3) positions in any interest rate-related instrument that is sold / lent or posted as collateral under a Repo-style transaction as provided in paragraph 164 of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025.

42. A bank shall calculate its market risk capital requirement for interest rate risk as follows:

(1) Identify the instruments in its trading book which have interest rate risk as per paragraph 41 above.

(2) Separate trading book instruments in each currency.

(3) For each currency:

(i) calculate the net position of instruments after offsetting as set out in paragraphs 55 and 56.

(ii) include net positions from sub-para (i) above in the calculation of specific risk capital requirement, as per paragraphs 43 to 45, after applying offsets as set out in paragraph 46.

(iii) include net positions from sub-para (i) above in the calculation of its general market risk capital requirement, as per paragraphs 47 to 50.

(4) Aggregate all specific risk and general market risk capital requirements for each currency.

B.1 Specific risk

43. A bank shall calculate the specific risk capital requirements, both for net long or net short position in each trading book instrument, as detailed in Table 1 below:

Table 1: Specific Risk Capital Requirement

Sl.no.	Nature of debt securities / issuer	Guidelines on specific risk charge for interest rate risk
1	Central and State Governments	1. The specific risk charge shall be as below: i. Central and State Government securities and securities

<table>
<tr><th colspan="3">Table 1: Specific Risk Capital Requirement</th></tr>
<tr><th>Sl.no.</th><th>Nature of debt securities / issuer</th><th>Guidelines on specific risk charge for interest rate risk</th></tr>
<tr><td></td><td></td><td>guaranteed by Central Government: 0 per cent
ii. Securities guaranteed by State Government
<table>
<tr><th>Residual maturity</th><th>Capital charge (%)</th></tr>
<tr><td>6 months or less</td><td>0.25</td></tr>
<tr><td>More than 6 months and up to and including 24 months</td><td>1.00</td></tr>
<tr><td>More than 24 months</td><td>1.60</td></tr>
</table></td></tr>
<tr><td>2</td><td>Foreign Central Governments</td><td>1. The specific risk charge shall be as per the table below.
<table>
<tr><th colspan="2">External rating</th><th rowspan="2">Capital charge (%)</th></tr>
<tr><th>S&P/ Fitch</th><th>Moody's</th></tr>
<tr><td>AAA to AA</td><td>Aaa to Aa3</td><td>0</td></tr>
<tr><td>A to BBB</td><td>A1 to Baa3</td><td>
<table>
<tr><th>Residual maturity</th><th>Capital charge (%)</th></tr>
<tr><td>6 months or less</td><td>0.25</td></tr>
<tr><td>More than 6 months and up to and including 24 months</td><td>1.00</td></tr>
<tr><td>More than 24 months</td><td>1.60</td></tr>
</table></td></tr>
<tr><td>BB to B</td><td>Ba1 to B3</td><td>8</td></tr>
<tr><td>Below B</td><td>Below B3</td><td>12</td></tr>
<tr><td>Unrated</td><td>Unrated</td><td>8</td></tr>
</table>
Provided that, if a foreign jurisdiction has exercised its national discretion to allow its banks to apply specific risk capital charge for their domestic currency exposures to their sovereign lower than what is recorded as per the external rating in the above Table, provided that such exposures are funded in the same currency, an Indian bank can also use the same risk charge for similar exposures in those jurisdictions. However, in case a Host Supervisor requires a more conservative treatment to such claims in the books of the Indian bank, the bank shall adopt the requirements prescribed by the Host Country supervisors for computing capital adequacy.</td></tr>
</table>

<table>
<tr><th colspan="3">Table 1: Specific Risk Capital Requirement</th></tr>
<tr><th>Sl.no.</th><th>Nature of debt securities / issuer</th><th>Guidelines on specific risk charge for interest rate risk</th></tr>
<tr><td></td><td></td><td>2. In the above table, the modifiers “+” or “-” have been subsumed within the main rating category.</td></tr>
<tr><td>3</td><td>Qualifying category</td><td>1. The specific risk charge shall be as per the table below:
<table><tr><th>Residual maturity</th><th>Capital charge (%)</th></tr><tr><td>6 months or less</td><td>0.25</td></tr><tr><td>More than 6 months and up to and including 24 months</td><td>1.00</td></tr><tr><td>More than 24 months</td><td>1.60</td></tr></table>2. The following securities / issuers shall be included under the ‘Qualifying’ category.
(i) Securities issued by Public Sector Entities (PSEs) and Multilateral Development Banks (MDBs)
(ii) Securities issued by other issuers (i.e., other than securities specifically mentioned in other categories) which are rated Investment Grade (IG) by at least two Eligible Credit Rating Agencies (ECRA).
3. For this purpose, Investment Grade rating means a rating of BBB (Baa3 for Moody’s) or higher.
4. The modifiers “+” or “-” have been subsumed within the main rating category.
5. A bank may refer to paragraph 24 of the Reserve Bank of India (Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2026 for the list of approved ECRA.</td></tr>
<tr><td>4</td><td>Non-equity capital instruments of financial entities</td><td>1. Non-equity capital instruments issued by banks and other financial entities, irrespective of the external credit rating, shall attract specific risk charge of 12 per cent.
2. This treatment shall not apply to investments in non-equity capital instruments which are required to be:
(a) deducted from the regulatory capital of the investment bank; or
(b) risk weighted at 250 per cent as per paragraph 28(8) of the Reserve Bank of India (Commercial Banks- Prudential Norms on Capital Adequacy)</td></tr>
</table>

<table>
<tr><th colspan="3">Table 1: Specific Risk Capital Requirement</th></tr>
<tr><th>Sl.no.</th><th>Nature of debt securities / issuer</th><th>Guidelines on specific risk charge for interest rate risk</th></tr>
<tr><td></td><td></td><td>Directions, 2025.</td></tr>
<tr><td>5</td><td>Others</td><td>1. The specific risk charge shall be as per the table below:
<table><tr><th>External rating</th><th>Capital charge (%)</th></tr><tr><td>BB</td><td>8</td></tr><tr><td>Below BB</td><td>12</td></tr><tr><td>Unrated</td><td>8</td></tr></table>2. A bank may also refer to paragraphs 4 and 5 at Sl.no.3 of this table.</td></tr>
</table>

44. Treatment of Debt Mutual Funds / Exchange Traded Funds (ETF)

A bank shall calculate the capital requirement of Debt Mutual Funds / ETF held in the trading book as under:

(1) Investments in open-ended debt mutual funds / ETFs which invest not less than 90 per cent of their Assets Under Management (AUM) in debt instruments and for which,

(i) full constituent debt details and average modified duration are available, at least as at the end of each month; and

(ii) Net Asset Value (NAV) is available on daily basis,

shall attract specific risk capital charge as per Table 1 above.

Equity investments or units in funds including REITs, InvITs and AIFs, and securitised debt shall not be considered as eligible debt instruments.

(2) In case of debt mutual funds / ETFs which contain a mix of debt instruments and fulfilling all the criteria in sub-paragraph (1) above, the specific risk capital charge shall be computed based on the debt instrument attracting the highest specific risk capital charge in the fund.

(3) The following investments of debt mutual funds / ETFs shall be subject to specific risk capital charge of 9 per cent:

(i) Contributions by debt mutual funds to Corporate Debt Market Development Fund (CDMDF) in terms of SEBI Regulations.

(ii) Investments in any other instruments (i.e., other than eligible debt instruments listed in sub-paragraph (1) above), as approved under SEBI Regulations.

These investments of debt mutual funds / ETFs shall not be considered for applying the specific risk capital charge detailed in sub-paragraphs (1) and (2) above.

(4) For investments in debt mutual funds / ETFs specified in sub-paragraphs (1) and (2) above, the general market risk capital charge shall be calculated based on the standardised duration method for interest rate risk, as detailed in Section B.2 of this Chapter. For this purpose, the investment in any particular debt mutual fund / ETF shall be considered as a single instrument with modified duration equal to the average modified duration of the fund and the assumed change in yield equal to 1.00 per cent. The investments listed in sub-paragraphs (3)(i) and (3)(ii) above shall, however, not be considered in this calculation, and shall be subject to general market risk capital charge of 9 per cent.

(5) The scaling factor prescribed for interest rate risk in paragraph 40 shall be applicable for investments specified in sub-paragraphs (1) and (2) above, whereas the scaling factor prescribed for equity risk in paragraph 40 shall be applicable for investments specified in paragraph (3)(i) and (3)(ii) above.

(6) All other investments in debt mutual funds / ETFs including but not limited to:

(i) investments which do not meet the requirements listed under sub-paragraphs (1)(i) and / or (1)(ii) above; and / or

(ii) where the debt mutual fund's / ETF's investments in debt instruments are less than 90 per cent of the fund's AUM,

shall be treated on par with equity for computation of capital charge for market risk, as prescribed in Section C of this Chapter. The scaling factor prescribed for equity risk in paragraph 40 shall be applicable to such investments.

Illustrative examples on the computation of capital charge for debt mutual funds / ETFs

(7) Few illustrative examples on the computation of capital charge for debt mutual funds / ETFs are provided below.

Example 1

Consider an investment with current value of ₹100 crore in an open-ended debt mutual fund with investments only in Central Government debt securities and for which full constituent debt details and average modified duration (MD) are available at each month-end and NAV is available on daily basis. Assume average MD of the fund is 4. Assume investment in CDMDF is 0.25 per cent of the current value of fund (₹100 crore * 0.25% = ₹0.25 crore).

Specific risk charge (SRC)

- SRC for the investment in Central Government bonds = 0 per cent (as per Table 1 – Sl.no.1)

  SRC (amount) = ₹99.75 crore x 0% = 0

- SRC for the contribution to CDMDF = 9 per cent

  SRC (amount) = ₹0.25 crore x 9% = ₹0.02 crore

General market risk charge (GMRC)*

- For calculation of GMRC, the entire investment, excluding CDMDF, of ₹99.75 crore is considered as investment in a single instrument with average MD = 4. Assumed change in yield (ACY) = 1.00 per cent.

  GMRC (amount) = Value of investment x MD x ACY = ₹99.75 crore x 4 x 1% = ₹3.99 crore

  The GMRC amount calculated as above will be slotted into the respective time band (3.6 to 4.3 years) and the capital charge computed based on the standardised duration method as per Section B.2 of this Chapter.

- GMRC for the contribution to CDMDF = 9 per cent
  GMRC (amount) = ₹0.25 crore x 9% = ₹0.02 crore

Total risk charge (TRC)

- For the investment in Central Government bonds, TRC = SRC + GMRC = 0 + 3.99 = ₹3.99 crore. Scalar applicable = 1.3
- For the contribution to CDMDF, TRC = SRC + GMRC = 0.02 + 0.02 = ₹0.04 crore. Scalar applicable = 3.5

Example 2

Consider an investment with current value of ₹250 crore in an open-ended debt mutual fund with investments as under:

Investment type	Percentage (%)	Amount (₹ crore)
Central Government debt securities	78	195
Corporate debt securities (lowest rating AA, residual maturity exceeding 24 months)	18	45
CDMDF	0.25	0.625
Other instruments (REITs, InvITs, securitised debt)	3.75	9.375

Full constituent debt details and average modified duration (MD) are available at each month-end and NAV is available on daily basis. Assume average MD of the fund is 6.

Specific risk charge (SRC)

- SRC will be based on the instrument attracting the highest specific risk capital charge. Hence, SRC for the investment in Central Government bonds and corporate bonds = 1.6 per cent (as per Table 1 – Sl.no.3)

  SRC (amount) = ₹240 crore x 1.60% = ₹3.84 crore

- SRC for the contribution to CDMDF and other investments = 9 per cent

  SRC (amount) = ₹10 crore x 9% = ₹0.9 crore

General market risk charge (GMRC)*

- For calculation of GMRC, the entire investment, excluding CDMDF and other investments, of ₹240 crore is considered as investment in a single instrument with average MD = 6. Assumed change in yield (ACY) = 1.00 per cent.

  GMRC (amount) = Value of investment x MD x ACY = ₹240 crore x 6 x 1% = ₹14.4 crore

  The GMRC amount calculated as above will be slotted into the respective time band (5.7 to 7.3 years) and the capital charge computed based on the standardised duration method as per Section B.2 of this Chapter.

- GMRC for the contribution to CDMDF and other investments = 9 per cent

GMRC (amount) = ₹10 crore x 9% = ₹0.9 crore

Total risk charge (TRC)

- For the investment in Central Government bonds and Corporate debt securities, TRC = SRC + GMRC = 3.84 + 14.4 = ₹18.24 crore. Scalar applicable = 1.3
- For the contribution to CDMDF and other investments, TRC = SRC + GMRC = 0.9 + 0.9 = ₹1.8 crore. Scalar applicable = 3.5

Example 3

Consider an investment with current value of ₹300 crore in an open-ended debt mutual fund with investments as under:

Investment type	Percentage (%)	Amount (₹ crore)
Central Government debt securities	85	255
Corporate debt securities (lowest rating AA, residual maturity exceeding 24 months)	3	9
CDMDF	0.25	0.75
Other instruments (REITs, InvITs, securitised debt)	11.75	35.25

Full constituent debt details and average modified duration (MD) are available at each month-end and NAV is available on daily basis. Assume average MD of the fund is 4. Since the total investments in debt securities are less than 90 per cent of the debt mutual fund's AUM, the entire investment shall be treated on par with equity for computation of capital charge for market risk as prescribed in Section C of this Chapter.

Specific risk charge (SRC)

- SRC for the entire investment = 9 per cent

  SRC (amount) = ₹300 crore x 9% = ₹27 crore

General market risk charge (GMRC)

- GMRC for the entire investment = 9 per cent
- GMRC (amount) = ₹300 crore x 9% = ₹27 crore

Total risk charge (TRC)

- For the entire investment, TRC = SRC + GMRC = 27 + 27 = ₹54 crore. Scalar applicable = 3.5

Example 4

Consider an investment with current value of ₹150 crore in a closed-ended debt mutual fund investing only in Corporate Bonds. Since the fund is closed-ended, the entire investment shall be treated on par with equity for computation of capital charge for market risk as prescribed in Section C of this Chapter.

Specific risk charge (SRC)

- SRC for the entire investment = 9 per cent

  SRC (amount) = ₹150 crore x 9% = ₹13.5 crore

General market risk charge (GMRC)

- GMRC for the entire investment = 9 per cent

  GMRC (amount) = ₹150 crore x 9% = ₹13.5 crore

Total risk charge (TRC)

For the entire investment, TRC = SRC + GMRC = 13.5 + 13.5 = ₹27 crore. Scalar applicable = 3.5

* The general market risk charge in these Examples 1 and 2 above do not factor in the netting, along with disallowances, with other interest rate risk positions in the trading book as per the standardised duration method, as prescribed in Section B.2 of this Chapter.

45. Treatment of securitisation exposures

A bank shall calculate the specific risk capital requirement of securitisation exposures held in the trading book as under:

(1) For securitisation and re-securitisation transactions undertaken prior to September 24, 2021, the treatment of exposures for capital adequacy shall be as provided in Table 2 – Part A and Table 2 – Part B below respectively.

Table 2 – Part A: Securitisation Exposures prior to September 24, 2021		
Rating by the ECAI*	Specific Risk Capital Charge	
	Securitisation Exposures	Securitisation Exposures relating

	(in %)	to Commercial Real Estate Exposures (in %)
AAA	1.6	8.0
AA	2.4	8.0
A	4.0	8.0
BBB	8.0	8.0
BB	28.0 (100.0 in the case of originators)	28.0 (100.0 in the case of originators)
B and below or Unrated	100.0	100.0

* These ratings indicate the ratings assigned by Indian rating agencies / ECAIs or foreign rating agencies. In the case of foreign ECAIs, the rating symbols used here correspond to Standard and Poor. The modifiers '+' or '-' have been subsumed with the main rating category.

Table 2 – Part B: Re-securitisation Exposures prior to September 24, 2021		
Rating by the ECAI*	Specific Risk Capital Charge	
	Re-Securitisation Exposures (in %)	Re-Securitisation Exposures relating to Commercial Real Estate Exposures (in %)
AAA	3.2	16.0
AA	4.8	16.0
A	8.0	16.0
BBB	16.0	16.0
BB	56.0 (100.0 in the case of originators)	56.0 (100.0 in the case of originators)
B and below or Unrated	100.0	100.0

* These ratings indicate the ratings assigned by Indian rating agencies / ECAIs or foreign rating agencies. In the case of foreign ECAIs, the rating symbols used here correspond to Standard and Poor. The modifiers '+' or '-' have been subsumed with the main rating category.

Re-securitisation Exposures are not allowed in terms of Reserve Bank of India (Commercial Banks – Securitisation Transactions) Directions, 2025.

(2) For securitisation transactions undertaken on or after September 24, 2021, the specific risk capital requirement of securitisation exposures that are held in the

trading book shall be calculated according to the revised method as set out in paragraphs 88 to 125 of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025. Accordingly, a bank shall calculate the specific risk capital requirement applicable to each securitisation exposure in trading book by dividing the risk weight calculated, as if it were held in the banking book, by 12.5.

(3) A bank shall calculate the maximum possible loss for each individual position in a credit derivative or securitisation instrument. Despite sub-paragraphs 45(1), (2) and (4), a bank may limit the specific risk capital requirement for an individual position in a credit derivative or securitisation instrument to the maximum possible loss. For a short position, the maximum possible loss could be calculated as a change in value due to the underlying names immediately becoming default risk-free. For a long risk position, the maximum possible loss could be calculated as the change in value in the event that all the underlying names were to default with zero recoveries. A bank may refer to Explanation (2) in paragraph 267(7)(ii) of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025, for illustrative examples on determining maximum possible loss.

(4) A bank shall treat a CDS position in trading book as a notional position in the reference obligation and the specific risk capital requirement shall be the same as applicable to the reference obligation.

Provided that, for a CDS position in trading book, where the reference obligation is in banking book, specific risk capital requirement in trading book can be calculated by dividing the risk weight applicable to the reference obligation in the banking book by 12.5.

46. Specific risk capital requirement for positions hedged by credit derivatives

(1) A bank may, for the purpose of calculating specific risk capital requirement for a credit derivative and its hedged position, apply:

(i) full offset when the values of two legs (i.e., long and short) always move in the opposite direction and broadly to the same extent. This would be the case when:

a) the two legs consist of completely identical instruments; or

b) a long cash position (or credit derivative) is hedged by a total rate of

return swap (or vice versa) and there is an exact match between the reference obligation and the underlying exposure (i.e., the cash position). The maturity of the swap itself may be different from that of the underlying exposure.

In such cases, no specific risk capital requirement applies to both sides of the position.

(ii) 80 per cent offset to the side of the transaction with the higher capital requirement and zero specific risk requirement on the other side, after taking account of restrictive payout provisions (such as fixed payouts and materiality thresholds) applicable to the hedged position and credit derivative, when the value of two legs (i.e., long and short) always moves in the opposite direction but not broadly to the same extent. This would be the case when:

(a) a long cash position (or credit derivative) is hedged by a credit default swap (CDS) (or vice versa) and there is an exact match in terms of the reference obligation, the maturity of both the reference obligation and the credit derivative, and the currency of the underlying exposure; and

(b) key features of the credit derivative contract (e.g., credit event definitions, settlement mechanisms) do not cause the price movement of the credit derivative to materially deviate from the price movements of the cash position.

(iii) the higher of the specific risk capital requirements for two legs when the value of the two legs (i.e., long and short) usually move in the opposite direction. This would be the case when:

(a) The position would have been captured in sub-paragraph 46(1)(i)(b), but there is an asset mismatch between the reference obligation and the underlying exposure. Nonetheless, the position meets the requirements in paragraph 128 of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025.

(b) The position would have been captured in sub-paragraphs 46(1)(i)(a) or 46(1)(ii) but there is a maturity or currency mismatch between the credit protection and the underlying asset. Currency mismatches shall

feed into the normal reporting of FX risk.

(c) The position would have been captured in sub-paragraph 46(1)(ii) but there is an asset mismatch between the cash position (or credit derivative) and the credit derivative hedge.

(iv) The offset treatment as per sub-paragraphs 46(1)(i) to (iii) above are applicable not only when the underlying position being hedged is a cash position, but also when the position being hedged is a CDS or other credit derivative. They also apply regardless of whether the cash positions or reference obligations of the credit derivative are single-name or securitisation exposures.

(a) For example, when a long cash position is hedged using a CDS, the 80 per cent offset treatment as per sub-paragraph 46(1)(ii) above (the partial allowance treatment as per sub-paragraph 46(1)(iii) above) generally applies when the reference obligation of the CDS is the cash instrument being hedged and the currencies and remaining maturities of the two positions are (are not) identical. Similarly, when a purchased CDS is hedged with a sold CDS, the 80 per cent offset treatment (the partial allowance treatment) generally applies when both the long and short CDSs have the same reference obligations and the currencies and remaining maturities of the long and short CDSs are (are not) identical.

(b) The full allowance (100 per cent offset as per sub-paragraph 46(1)(i) above) treatment generally applies only when there is zero basis risk between the instrument being hedged and the hedging instrument, such as when a cash position is hedged with a total rate of return swap referencing the same cash instrument and there is no currency mismatch, or when a purchased CDS position is hedged by selling a CDS with identical terms in all respects, including reference obligation, currency, maturity, documentation clauses (e.g. credit payout events, methods for determining payouts for credit events, etc), and structure of fixed and variable payments over time.

(v) While the prescribed treatment, as per sub-paragraphs 46(1)(i) to (iii) above,

generally operates on a one-to-one basis, a bank may, in principle, consider arrangements wherein multiple instruments collectively constitute a hedge eligible for partial offsetting, provided all necessary conditions (i.e., the value of two legs moving in opposite directions, key contractual features of the credit derivative, identical reference obligations and currency / maturity mismatches) are met.

(2) In cases not captured in paragraph 46(1), a bank shall apply specific risk capital requirement against both sides of the position (i.e., the credit protection and the underlying asset).

B.2 General market risk

47. A bank shall compute the general market risk capital requirement for interest rate risk as the sum of four components:

(1) the net short or long position in the whole trading book;

(2) a small proportion of the matched positions in each time band (the "vertical disallowance");

(3) a larger proportion of the matched positions across different time bands (the "horizontal disallowance"); and

(4) a net charge for positions in options, where appropriate (see Section E of this Chapter).

48. A bank shall use a separate duration ladder (refer Table 3 and Table 4 below) for each currency and capital requirements shall be calculated for each currency separately and then summed with no offsetting between positions of the opposite sign.

Provided that, in case of currencies in which business is insignificant, a bank may construct a single duration ladder and slot, within each appropriate time band, the net long or short position for each currency. Such individual net positions are to be summed within each time band, irrespective of whether they are long or short positions, to produce a gross position figure. The gross positions in each time-band shall be subject to the assumed change in yield set out in Table 3 with no further offsets. A bank's business in a currency is considered insignificant if the exposure (i.e., on-balance sheet items and notional value of off-balance sheet items of

instruments in the trading book) in that currency is less than 5 per cent of the total of either the bank's global assets or global liabilities.

49. A bank shall measure the general market risk under standardised duration method by calculating the price sensitivity (modified duration) of each position separately. The mechanics are as follows:

a) first calculate the price sensitivity (modified duration) of each instrument;
b) apply the assumed change in yield of between 0.6 and 1.0 percentage points (see Table 3) to the modified duration of the instrument;
c) slot the resulting sensitivity measures into a duration ladder with the 15 time bands set out in Table 3;
d) subject the matched long and short positions in each time band to a 5 per cent vertical disallowance designed to capture basis risk; and
e) carry forward the net positions in each time band for horizontal offsetting subject to the disallowances set out in Table 4.

Table 3: Duration method: time bands and assumed changes in yield

Time Bands	Assumed change in yield	Time Bands	Assumed change in yield
Zone 1:		**Zone 3:**	
1 month or less	1.00	> 3.6 to 4.3 years	0.75
> 1 to 3 months	1.00	> 4.3 to 5.7 years	0.70
> 3 to 6 months	1.00	> 5.7 to 7.3 years	0.65
> 6 to 12 months	1.00	> 7.3 to 9.3 years	0.60
Zone 2:		> 9.3 to 10.6 years	0.60
> 1.0 to 1.9 years	0.90	> 10.6 to 12 years	0.60
> 1.9 to 2.8 years	0.80	> 12 to 20 years	0.60
> 2.8 to 3.6 years	0.75	over 20 years	0.60

Table 4: Horizontal disallowances

Zones	Within the zones	Between adjacent zones	Between zones 1 and 3
Zone 1	40%	40%	100%
Zone 2	30%		
Zone 3	30%		

50. To measure the general market risk capital requirements for interest rate risk in premium payable / receivable for a credit default swap, a bank shall treat the present value of the premium payable / receivable as a notional short / long position in Government securities of relevant maturity and apply appropriate capital charge for general market risk to such notional positions.

Interest rate derivatives

51. A bank shall include all interest-rate derivatives and off-balance sheet instruments in the trading book which react to changes in interest rates (e.g., FRAs, other forward contracts, bond futures, interest rate and cross-currency swaps and forward foreign exchange positions). A bank may treat options in a variety of ways as described in Section E of this Chapter. A summary of the rules for dealing with interest rate derivatives is set out in paragraph 61.

52. A bank shall convert interest-rate derivatives into notional positions in the relevant underlying as provided in paragraphs 53 and 54 and subject the same to specific and general market risk capital requirements. To calculate the market risk capital requirement for interest rate risk, a bank shall use the fair value of the principal amount of the underlying or of the notional underlying, based on the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025 and prudent valuation guidance set out in paragraph 213 of the Reserve Bank of India (Commercial Banks- Prudential Norms on Capital Adequacy) Directions, 2025. For instruments where the apparent notional amount differs from the effective notional amount, a bank shall use the effective notional amount.

53. A bank shall treat the futures and forward contracts (including FRAs) as a combination of a long and a short position in a notional government security. The maturity of a future or an FRA shall be the period until delivery or exercise of the contract, plus – where applicable – the life of the underlying instrument. For example, a long position in a June three-month interest rate future (taken in April) is to be reported as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months. Where a range of deliverable instruments may be delivered to fulfil the contract, a bank may elect which deliverable security goes into the duration ladder but shall take

account of any conversion factor defined by the exchange. In the case of a future on a corporate bond index, positions shall be included at the fair value of the notional underlying portfolio of securities.

54. A bank shall treat swaps as two notional positions in government securities with relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. The separate legs of cross-currency swaps shall be reported in the relevant duration ladders for the currencies concerned.

55. A bank may offset the following positions for calculating specific risk and general market risk capital requirements:

a) Long and short positions (both actual and notional) in an identical issuance (including positions in derivatives). No offsetting is permitted between different issues, even where the issuer is the same, since differences in coupon rates, liquidity, call features, etc., mean that prices may diverge in the short run.

b) A matched position in a future or forward and its corresponding underlying.

When the future or the forward comprises a range of deliverable instruments, a bank may offset short position in the future or forward contract and long position in the corresponding “cheapest-to-deliver” underlying only where “cheapest-to-deliver” underlying security is identifiable and the bank is able to deliver it. The price of the “cheapest-to-deliver” security (i.e., the security which shall be the most profitable security for the bank to deliver) and the price of the future or forward contract shall, in such cases, move in close alignment. A bank shall not offset positions in different currencies, i.e., the separate legs of cross-currency swaps or forward foreign exchange positions are to be treated as notional positions in the relevant instruments and included in the appropriate calculation for each currency.

56. A bank may also offset opposite positions in the same category of instruments if the positions relate to the same underlying instruments, are of the same nominal value and are denominated in the same currency. In addition:

(1) for futures: offsetting positions in the notional or underlying instruments to which the futures contract relates are for identical products and mature within

seven days of each other;

(2) for swaps and FRAs: the reference rates for floating rate positions are identical and the coupons are closely matched (i.e., within 15 basis points); and

(3) for swaps, FRAs, and forwards: the next interest fixing dates or, for fixed coupon positions or forwards, the residual maturities are within the following limits:

(i) less than one month hence: same day;

(ii) between one month and one year hence: within seven days; and

(iii) over one year hence: within 30 days.

57. The treatment in paragraph 56 is also applicable to the delta-equivalent value of options and the separate legs of different swaps. The delta equivalent of the legs arising out of the treatment of caps and floors as set out in paragraph 91 can also be offset against each other under the rules laid down in paragraph 56.

58. A bank with large swap books may use the alternative formula for these swaps to calculate the positions to be included in the duration ladder. The alternative method is to calculate the sensitivity of the net present value implied by the change in yield used in the duration method and allocate these sensitivities into the time bands set out in paragraph 49.

59. Interest rate and currency swaps, FRAs, forward FX contracts, and interest rate futures shall not be subject to a specific risk capital requirement. This exemption also applies to futures on an interest rate index. However, in the case of futures contracts where the underlying is a debt security, or an index representing a basket of debt securities, a bank shall apply specific risk capital requirement according to the credit risk of the issuer as set out in Section B.1 of this Chapter.

60. A bank shall apply general market risk positions in all derivative products in the same manner as for cash positions, subject only to an exemption for fully or very closely matched positions in identical instruments as defined in paragraphs 55 and 56. The various categories of instruments shall be slotted into the duration ladder and treated according to the rules identified earlier.

61. Table 5 presents a summary of the regulatory treatment for interest rate

derivatives, for market risk purposes.

Table 5: Summary of treatment of interest rate derivatives		
Instrument	Specific risk capital requirement	General market risk capital requirement
Exchanged-traded future		
Government debt security	No [Yes, for foreign central government securities (below AA-) - refer Table 1]	Yes, as two positions
Corporate debt security	Yes	Yes, as two positions
Index on interest rates	No	Yes, as two positions
Over-the-counter (OTC) forward		
Government debt security	No [Yes, for foreign central government securities (below AA-) - refer Table 1]	Yes, as two positions
Corporate debt security	Yes	Yes, as two positions
Index on interest rates	No	Yes, as two positions
FRAs, swaps	No	Yes, as two positions
Forward Foreign Exchange	No	Yes, as one position in each currency
Options		Either (a) carve out together with the associated hedging positions: simplified approach; (b) scenario analysis; or (b) delta-plus method (gamma and vega shall receive separate capital requirements)
Government debt security	No [Yes, for foreign central government securities (below AA-) - refer Table 1]	
Corporate debt security	Yes	
Index on interest rates	No	
FRAs, swaps	No	

The specific risk capital requirement as per this Table is the specific risk capital requirement relating to the issuer of the instrument. Under the credit risk rules, a separate capital requirement for the counterparty credit risk applies.

C. Equity risk

62. For measuring the market risk capital requirements for equity risk, a bank shall include all trading book instruments (including trading book exposures which are exempted from capital market exposure ceilings for direct investments), within

the scope of application in Chapter III, that exhibit market behaviour like equities. Such trading book instruments include, but are not limited to, equity shares (whether voting or non-voting), convertible securities that behave like equities, equity investments (or units) in funds, and commitments to buy or sell equity securities. Equity investments (or units) in funds assigned to the banking book in accordance with paragraph 41(6)(iv) of the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025, are excluded from the equity risk capital requirement.

Specific and general market risks

63. A bank shall apply specific risk capital requirement of 9 per cent of bank's gross equity positions (i.e., the sum of all long and short equity positions in each individual equity instrument in an equity market) and general market risk capital requirement of 9 per cent of bank's overall net position in an equity market (i.e., difference between the sum of the longs and sum of the shorts). The long or short positions shall be calculated on a market-by-market basis, i.e., a separate calculation shall be carried out for each national market in which the bank holds equities. Short positions are not allowed in India except in permitted derivatives and Government Securities.

D. Foreign exchange risk

64. For measuring the capital requirement for foreign exchange (FX) risk, a bank shall include all positions, within the 'Scope of application' in Chapter III above, in foreign currencies, including gold, regardless of whether these are in the trading book or banking book.

65. The Net Open Position shall be calculated as under:

(i) Measure the exposure in a single currency position as set out in paragraphs 66 to 73 below.

(ii) Measure the risks inherent in a bank's mix of the long and short positions in different currencies as set out in paragraphs 77 to 83 below.

D.1 Measuring the exposure in a single currency

66. The bank's Net Open Position in each currency shall be calculated by summing:

(1) the net spot position (i.e., all asset items less all liability items, including accrued interest, denominated in the currency in question);

(2) the net forward position (i.e., all amounts to be received less all amounts to be paid, as indicated in paragraph 69 below);

(3) guarantees (and similar instruments) that are certain to be called and are likely to be irrecoverable;

(4) net future income / expenses not yet accrued / due but where the amounts are certain and have been fully hedged by the bank, at its discretion;

(5) any other item representing a profit or loss in foreign currencies (depending on particular accounting conventions in different countries); and

(6) the net delta-based equivalent of the total book of foreign currency options.

67. Options are also subject to a separately calculated capital requirement for gamma and vega risks as described in paragraphs 89 to 93. Alternatively, options and their associated underlying are subject to one of the other methods described in Section E of this Chapter.

68. All open positions from onshore and offshore operations are captured in the calculation of Net Open Position, as per paragraph 66. Hence, a bank is not required to separately calculate onshore and offshore Net Open Positions. Positions from offshore operations include structural forex positions (after applying the structural exemption provision) and other items contributing to Net Open Position not captured in the structural forex position. For example, forward positions denominated in GBP of a US branch of a bank will not be captured through the structural forex position and shall be included separately in Net Open Position.

69. The net forward position includes:

(1) tom and spot transactions which are not yet settled;

(2) forward and futures transactions; and

(3) principal on cross-currency swaps and any other forex derivative transactions not included in the spot position.

70. Positions in gold (spot plus forward) shall be first expressed in terms of the standard unit of measurement (tonnes / kilos / ounces, etc.), with the net position

being valued at current spot rates.

71. Where gold is part of a forward contract (quantity of gold to be received or to be delivered), any interest rate or foreign currency exposure from the other leg of the contract shall be reported as set out in Section B of this Chapter and paragraph 66.

72. Interest, other income, and expenses shall be treated as follows: Interest accrued (i.e., earned but not yet received) and accrued expenses shall be included as a spot position. Unearned but expected future interest and anticipated expenses may be excluded unless the amounts are certain and the bank has taken the opportunity to hedge them. If a bank includes future income / expenses, it shall do so on a consistent basis, and it would not be permitted to select only those expected future flows which reduces its position.

73. Measurement of derivative positions: A bank shall use the current spot rates, without present value adjustment, for measuring derivative positions.

D.2 Overseas operations in Net Open Position

74. Treatment of capital invested in overseas operations: Subject to the 'Scope of application' in Chapter III, a bank shall include all capital investments in overseas operations under the net spot position for calculation of Net Open Position. For this purpose, overseas operations of a bank shall include overseas branches, IFSC Banking Units and Offshore Banking Units in Special Economic Zones, as well as overseas subsidiaries, associates, and joint ventures.

75. Treatment of accumulated surplus / unremitted surplus of overseas operations: Subject to the 'Scope of application' in Chapter III, a bank shall include all accumulated surplus / unremitted surplus of overseas operations under the net spot position for calculation of Net Open Position.

76. A bank shall include the structural positions, i.e., capital invested in and accumulated surplus / unremitted surplus of overseas operations (mentioned in paragraphs 74 and 75) in Net Open Position based on quarter-end position.

D.3 Measuring the foreign exchange risk in a portfolio of foreign currency positions and gold

77. For measuring the foreign exchange risk in a portfolio of foreign currency positions and gold, a bank shall use a shorthand method which treats all currencies

equally.

78. Under the shorthand method, the nominal amount of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency. The overall Net Open Position is measured by aggregating:

(1) the sum of the net short positions or the sum of the net long positions, whichever is greater; plus

(2) the net position (short or long) in gold, regardless of sign.

79. For calculating Net Open Position as per the shorthand method, a bank shall use spot rates based on financial benchmarks administered by benchmark administrators authorised under the relevant directions issued by FMRD.

80. Where the bank is assessing its foreign exchange risk on a consolidated basis, it may be technically impractical, in the case of some marginal operations, to include the currency positions of a foreign branch or subsidiary of the bank. In such cases, the internal limit in each currency may be used as a proxy for the positions. Provided there is adequate ex-post monitoring of actual positions against such limits, the limits shall be added, without regard to sign, to the Net Open Position in each currency.

81. Transactions undertaken by a bank till the end of business day shall be included for calculation of Net Open Position. The transactions undertaken after the end of business day may be taken into the positions for the next day. For this purpose, a bank may define its own end of business day timings, but the same shall be determined as per a duly approved internal policy and followed on a consistent basis.

82. The capital requirement for foreign exchange positions, including gold, shall be 9 per cent of the overall Net Open Position computed using the shorthand method. This capital requirement is in addition to the capital requirement for credit risk, interest rate risk, or any other risks on the on-balance sheet and off-balance sheet items pertaining to foreign exchange and gold transactions.

Illustration: See example in Table below.

Table: Example of the shorthand measure of foreign exchange risk

	JPY	EUR	GBP	CAD	USD	Gold
Net position per currency	+50	+100	+150	-20	-180	-35
Net Open Position	+300			-200		35

83. The capital requirement will be 9 per cent of the overall Net Open Position. Thus, the capital requirement would be 9 per cent of the higher of either the net long currency positions or the net short currency positions (i.e., 300) and of the net position in gold (35) = 335 x 9 per cent = 30.15 (scalars would be applied as prescribed).

84. A bank which is subject to the Master Direction – Risk Management and Inter-Bank Dealings, as amended from time to time, shall be guided by the Direction *ibid*, and related directions, for other instructions related to Net Open Position, including *inter alia*, reporting, applicable limit, and limit for Net Open Position involving Rupee as one of the currencies (NOP-INR).

E. Treatment of options

85. In recognition of the wide diversity of banks' activities in options and the difficulties of measuring price risk for options, two alternative approaches are permissible as under:

(1) a bank which solely uses purchased options may use the simplified approach described in paragraphs 87 and 88. This approach may also be adopted by a bank, in case it has all its written option positions hedged by perfectly matched long positions in exactly the same options, in which case no capital charge for market risk is required for these positions.

(2) a bank which also writes options shall either use the delta-plus method or scenario approach which are the intermediate approaches as set out in paragraphs 89 to 99.

86. In the simplified approach for options, the positions for the options and the associated underlying, cash or forward, are not subject to the standardised methodology but rather are carved-out and subject to separately calculated capital requirements that incorporate both general market risk and specific risk. The risk numbers thus generated are then added to the capital requirements for the relevant category, i.e., interest rate related instruments and foreign exchange as described in

Sections B and D of this Chapter. The delta-plus method uses the sensitivity parameters or Greek letters associated with options to measure their market risk and capital requirements. Under this method, the delta-equivalent position of each option becomes part of the simplified standardised approach set out in Sections B to D of this Chapter with the delta-equivalent amount subject to the applicable general market risk charges. Separate capital requirements are then applied to the gamma and vega risks of the option positions. The scenario approach uses simulation techniques to calculate changes in the value of an options portfolio for changes in the level and volatility of its associated underlyings. Under this approach, the general market risk capital requirement is determined by the scenario grid (i.e., the specified combination of underlying and volatility changes) that produces the largest loss. For the delta-plus method and the scenario approach, the specific risk capital requirements are determined separately by multiplying the delta-equivalent of each option by the specific risk weights set out in Section B.1 this Chapter.

Simplified approach

87. A bank which handles a limited range of purchased options only may use the simplified approach set out in Table 6. As an example of how the calculation would work, if a holder of 100 shares currently valued at Rs.10 each holds an equivalent put option with a strike price of Rs.11, the capital requirement would be: Rs.1,000 x 18% (i.e., 9% specific plus 9% general market risk) = Rs.180, less the amount the option is in the money (Rs.11 - Rs.10) x 100 = Rs.100, i.e., the capital requirement would be Rs.80. A similar methodology applies for options whose underlying is a foreign currency or an interest rate related instrument.

Table 6: Simplified approach: capital requirements

Position	Treatment
Long cash and long put or short cash and long call	The capital requirement shall be the market value of the underlying security[i] multiplied by the sum of specific and general market risk capital requirement[ii] for the underlying less the amount the option is in the money (if any) bounded at zero[iii]
Long call or long put	The capital requirement shall be the lesser of: (i) the market value of the underlying security multiplied by the

	sum of specific and general market risk capital requirement[iii] for the underlying and (ii) the market value of the option[iv]

88. In determining the capital requirement as per Table 6 above, the following may be noted (refer to the footnote numbers provided in Table 6):

(i) In some cases, such as foreign exchange, it may be unclear which side is the underlying security; this shall be taken to be the asset that would be received if the option were exercised. In addition, the nominal value shall be used for items where the market value of the underlying instrument could be zero, e.g., caps and floors, swaptions, etc.

(ii) Some options (e.g., where the underlying is an interest rate, a currency) bear no specific risk but specific risk will be present in the case of options on certain interest rate related instruments (e.g., options on a corporate debt security or corporate bond index; see Section B.1 of this Chapter for the relevant capital requirements). The capital requirement under this measure for currency options shall be 9 per cent.

(iii) For options with a residual maturity of more than six months, the strike price shall be compared with the forward, not current price. A bank unable to do this shall take the 'in the money' amount to be zero.

(iv) Where the position does not fall within the trading book (i.e., options on certain foreign exchange positions not belonging to the trading book), the book value may be used instead.

Delta-plus method

89. A bank using delta-plus method shall include delta-weighted options positions within the simplified standardised approach set out in Sections B and D of this Chapter. Such options shall be reported as a position equal to the market value of the underlying multiplied by the delta. However, since delta does not sufficiently cover the risks associated with options positions, a bank shall also measure gamma (which measures the rate of change in delta) and vega (which measures the sensitivity of the value of an option with respect to a change in volatility) sensitivities in order to calculate the total capital requirement. These sensitivities shall be

calculated according to an approved exchange model or the bank's proprietary options pricing model subject to oversight by the Reserve Bank.

90. The Reserve Bank may require a bank doing business in certain classes of exotic options (e.g., barriers, digitals) or in options "at the money" that are close to expiry to use the scenario approach which can accommodate more detailed revaluation approaches.

91. Delta-weighted positions with debt securities or interest rates as the underlying shall be slotted into the interest rate time bands, as set out in Section B.2 of this Chapter, under the following procedure. A two-legged approach shall be used as for other derivatives, requiring one entry at the time the underlying contract takes effect and a second at the time the underlying contract matures. For instance, a bought call option on a June three-month interest-rate future will in April be considered, on the basis of its delta-equivalent value, to be a long position with a maturity of five months and a short position with a maturity of two months. The written option will be similarly slotted as a long position with a maturity of two months and a short position with a maturity of five months. Similarly, a two-month call option on a bond future, where delivery of the bond takes place in September, would be considered in April as being long the bond and short a five-month deposit, both positions being delta-weighted. Floating rate instruments with caps or floors shall be treated as a combination of floating rate securities and a series of European-style options. For example, the holder of a three-year floating rate bond indexed to six-month MIBOR with a cap of 15 per cent shall treat it as:

(1) a debt security that reprices in six months; and

(2) a series of five written call options on an FRA with a reference rate of 15 per cent, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures. The rules applying to closely matched positions set out in paragraph 56 will also apply in this respect.

92. The capital requirement for options on FX and gold positions shall be based on the method for FX rate risk as set out in Section D of this Chapter. For delta risk, the net delta-based equivalent of the foreign currency and gold options shall be incorporated into the measurement of the exposure for the respective currency (or

gold) position.

93. In addition to the above capital requirements arising from delta risk, a bank using the delta-plus method shall calculate the gamma and vega for each option position (including hedge positions) separately. The capital requirements shall be calculated in the following way:

(1) For each individual option a gamma impact shall be calculated according to a Taylor series expansion as follows, where VU is the variation of the underlying of the option.

$$Gamma\ Impact = \frac{1}{2} \times Gamma \times VU^2$$

(2) VU is calculated as follows:

i. For interest rate options if the underlying is a bond, the price sensitivity shall be worked out using the duration method set out in Section B.2 of this Chapter. An equivalent calculation shall be carried out where the underlying is an interest rate.

ii. For foreign exchange and gold options: the market value of the underlying shall be multiplied by 9 per cent.

The basic rules set out here for interest rate options do not attempt to capture specific risk when calculating gamma capital requirements. However, the Reserve Bank may require a specific bank to do so.

(3) For the purpose of this calculation the following positions shall be treated as the same underlying:

i. for interest rates, each time band as set out in Section B.2 of this Chapter (positions have to be slotted into separate duration ladders by currency); and

ii. for foreign currencies and gold, each currency pair and gold.

(4) Each option on the same underlying will have a gamma impact that is either positive or negative. These individual gamma impacts shall be summed, resulting in a net gamma impact for each underlying that is either positive or negative. Only those net gamma impacts that are negative shall be included in the capital requirement calculation.

(5) The total gamma risk capital requirement shall be the sum of the absolute value of the net negative gamma impacts as calculated above.

(6) For volatility risk, a bank shall calculate the capital requirements by multiplying the sum of the vega risks for all options on the same underlying, as defined above, by a proportional shift in volatility of ± 25%.

(7) The total capital requirement for vega risk shall be the sum of the absolute value of the individual capital requirements that have been calculated for vega risk.

Scenario approach

94. A bank may opt to base the market risk capital requirement for options portfolios and associated hedging positions on scenario matrix analysis. Under this approach, a bank shall specify a fixed range of changes in the option portfolio's risk factors and calculate changes in the value of the option portfolio at various points along this grid. For the purpose of calculating the capital requirement, the bank shall revalue the option portfolio using matrices for simultaneous changes in the option's underlying rate or price and in the volatility of that rate or price. A different matrix shall be set up for each individual underlying as defined in paragraph 93 above. As an alternative, a bank that is significant trader in interest rate options, may base the calculation on a minimum of six sets of time bands. When using this method, not more than three of the time bands as defined in paragraph 49 shall be combined into any one set.

95. The options and related hedging positions shall be evaluated over a specified range above and below the current value of the underlying. The range for interest rates shall be consistent with the assumed changes in yield in paragraph 49. A bank using the alternative method for interest rate options set out in paragraph 94 above shall use, for each set of time bands, the highest of the assumed changes in yield applicable to the group to which the time bands belong. If, for example, the time bands 3.6 to 4.3 years, 4.3 to 5.7 years, and 5.7 to 7.3 years are combined the highest assumed change in yield of these three bands would be 0.75. For foreign exchange and gold, the range is ± 8 per cent. For all risk categories, at least seven observations (including the current observation) shall be used to divide the range into equally spaced intervals.

96. The second dimension of the matrix entails a change in the volatility of the underlying rate or price. A bank shall, at the minimum, use a single change in the volatility of the underlying rate or price equal to a shift in volatility of + 25% and - 25%. As circumstances warrant, however, the Reserve Bank may choose to require that a different change in volatility be used and / or that intermediate points on the grid be calculated.

97. After calculating the matrix, each cell contains the net profit or loss of the option and the underlying hedge instrument. The capital requirement for each underlying shall then be calculated as the largest loss contained in the matrix.

98. In case the Reserve Bank is not satisfied with the application of the scenario analysis by any specific bank, particularly as regards the precise way that the analysis is constructed, the Reserve Bank may require the bank to use the delta-plus method.

99. Besides the options risks mentioned above, a bank shall be conscious of the other risks also associated with options, e.g., rho (rate of change of the value of the option with respect to the interest rate) and theta (rate of change of the value of the option with respect to time). While the Reserve Bank is not mandating a measurement system for those risks at present, a bank undertaking significant options business shall, at a minimum, monitor such risks closely. Additionally, such a bank may incorporate rho into its capital calculations for interest rate risk.

Chapter-V: Disclosures and Repeal Provisions

A. Disclosures

100. A bank shall disclose the following qualitative as well as quantitative information on its market risk as part of its Pillar 3 disclosure requirements under the Basel III framework:

a) Table 1: General qualitative disclosure requirements related to market risk.
b) Table 2: Market risk under the simplified standardised approach.

101. The detailed templates and disclosure frequency are provided in **Annex I**.

B. Repeal Provisions

102. With the implementation of these Directions, Section D (except sub-section D.8) on ‘Capital charge for market risk’ of Chapter IV on ‘Risk weighted assets (RWAs)’ of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025 shall stand repealed. All the repealed instructions are deemed to have been in force prior to the coming into effect of these Directions. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

Annex I

Basel III Disclosure Format

The market risk disclosures include the market risk capital requirements calculated for trading book and banking book exposures that are subject to market risk capital requirements as per these Directions, including capital requirements for securitisation positions held in the trading book. However, it excludes the counterparty credit risk capital requirements that apply to the same exposures.

Table 1: General qualitative disclosure requirements related to market risk

Purpose: Provide a description of the risk management objectives and policies for market risk as defined in paragraphs 4(3) and 26.
Scope of application: Mandatory for all banks
Content: Qualitative information
Frequency: Annual
Format: Flexible
A bank shall describe its risk management objectives and policies for market risk according to the framework as follows:
(a) Strategies and processes of the bank, which shall include an explanation and / or a description of: • The bank's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor, and control the bank's market risks, including policies for hedging risk and the strategies / processes for monitoring the continuing effectiveness of hedges. • Policies for determining whether a position is designated as trading, including the definition of stale positions and the risk management policies for monitoring those positions. In addition, a bank shall describe cases where instruments are assigned to the trading or banking book contrary to the general presumptions of their instrument category and the market and gross fair value of such cases, as well as cases where instruments have been moved from one book to the other since the last reporting period, including the gross fair value of such cases and the reason for the move. • Description of internal risk transfer activities, including the types of internal risk transfer desk (Section C of Chapter II).
(b) The structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above.
(c) The scope and nature of risk reporting and / or measurement systems.

Table 2: Market risk under the simplified standardised approach

Purpose: Provide the components of the capital requirement under the simplified standardised approach for market risk

Scope of application: Mandatory for all banks

Content: Capital requirement

Frequency: Semi-annual

Format: Fixed. Additional rows can be added to break down other risks.

Accompanying narrative: A bank shall supplement the template with a narrative commentary to explain any significant changes in the reporting period and the key drivers of such changes.

		A	B	C	D
		Outright Products	Options		
			Simplified approach	Delta-plus method	Scenario approach
1	Interest Rate Risk				
2	Equity Risk				
3	Foreign Exchange Risk				
4	**Total**				

Explanation:

A) Outright products: positions in products other than options. This includes the capital requirement under Sections B to D of Chapter IV.

B) Options under the simplified approach: capital requirements for option risks (non-delta risks) under paragraphs 87 and 88.

C) Options under the delta-plus method: capital requirements for option risks (non-delta risks) under paragraphs 89 to 93.

D) Options under the scenario approach: capital requirements for option risks (non-delta risks) under paragraphs 94 to 99.