

Banking Regulation and Policy Department

Bangladesh Bank

Head Office

Dhaka

BRPD Circular No. - 35

Date: December 29, 2010

Poush 15, 1417

**Chief Executives
All Scheduled Banks in Bangladesh**

Dear Sir,

Amendment in Guidelines on Risk Based Capital Adequacy (RBCA) for Banks

Please refer to BRPD Circular No. 24 dated August 3, 2010 through which “Revised Guidelines on Risk Based Capital Adequacy (RBCA) for Banks”, August 2010 have been issued.

To make some instructions of the guidelines more specific and transparent, the following directives have been rephrased and revised:

SL No.	Reference Chapter and paragraphs	Amendments
1.	Inclusion in Para-1.4 (e), Chapter -1, Page - 3	Limitation of Tier 3: A minimum of about 28.5% of market risk needs to be supported by Tier 1 capital. Supporting of Market Risk from Tier 3 capital shall be limited up to maximum of 250% of a bank’s Tier 1 capital that is available after meeting credit risk capital requirement. ⁶
2.	Correction in Para 1.5 (f), Chapter -1 Page - 4	Holding of equity shares in any form exceeding the approved limit under section 26(2) of ‘ব্যাংক কোম্পানী আইন, ১৯৯১’ (Bank Company Act, 1991). The additional/unauthorized amount of holdings will be deducted at 50% from Tier 1 capital and 50% from Tier 2 capital.
3.	Correction in Para 1.9 (c), Chapter -1 Page - 5	BB may impose penalty as per ‘ব্যাংক কোম্পানী আইন, ১৯৯১’
4.	Replacement of “small enterprise” by “SME” in Para-2.2.9 Chapter-2, Page-8	Loans and advances to and investments (excluding equity exposure) in corporate. “Corporate” refers to any proprietorship, partnership or limited company that is neither PSE, bank, NBFIs nor borrower within the definition of retail portfolio and SME (having exposure within the limit stipulated in the section below).
5.	Replacement of “small enterprise” by “SME” in Para-2.2.10 Chapter-2, Page:8-9	Claims categorized as retail portfolio and SME
6.	Correction in Para-2.2.10 Chapter-2, Page-9	Exposure limit: The maximum aggregate exposure will be limited to BDT 1.00 (one) crore.

Contd. page/2

7.	Correction in Para-2.2.16 Chapter-2, Page-9	Venture capital is provided as funding to early-stage, high-potential, growth companies in the interest of generating a return through an eventual realization event.														
8.	Correction in Para-2.2.17 Chapter-2, Page:9-10	d) Claims on Off-shore Banking Units (OBU) e) Other asset (if any other items which are not specified above).														
9.	Revision in Table – 1, Chapter – 2 , Page - 10	Please see Annex-1.														
10	Inclusion in Table – 2, Chapter – 2 , Page - 13	n. Capital Market Exposures – Risk Weight 125%														
11	Correction in Table-2 Chapter-2, Page-13	Sl.	Exposure Type	Risk Weight (%)												
		s	All other assets													
			iv) Claims on Off-shore Banking Units (OBU)	100												
12	Revision in Table – 3, Chapter – 2, Page - 14	<p style="text-align: center;">Risk Weight for Short Term Exposures</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">BB's Rating Grade</td> <td style="text-align: center;">S1</td> <td style="text-align: center;">S2, S3</td> <td style="text-align: center;">S4</td> <td style="text-align: center;">S5, S6</td> </tr> <tr> <td style="text-align: center;">Risk Weight (%)</td> <td style="text-align: center;">20</td> <td style="text-align: center;">50</td> <td style="text-align: center;">100</td> <td style="text-align: center;">150</td> </tr> </table>					BB's Rating Grade	S1	S2, S3	S4	S5, S6	Risk Weight (%)	20	50	100	150
BB's Rating Grade	S1	S2, S3	S4	S5, S6												
Risk Weight (%)	20	50	100	150												
13	Table – 7, Chapter – 2 Page - 17	Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralized by the underlying shipment), for both issuing and confirming banks.														
14	Correction in Last Row, Table – 8, Chapter – 2, Page - 21	Same as minimum CAR														
15	Para 2.6.7, Chapter – 2 Page - 24	<p>In case of non-market related OBS transactions in foreign currency, the notional amount will be adjusted by an add-on factor of 5% for exchange rate fluctuation.</p> <p>For example, in case of a short term self liquidating letter of credit in USD equivalent to BDT 50 lac with cash margin BDT 5 lac, the notional amount will be BDT 52.5 lac [i.e. BDT 50 lac × (1+5%)], and the net notional amount will be BDT 47.5 lac [i.e. BDT 52.5 lac - BDT 5 lac]. So the on balance sheet equivalent will be BDT 9.5 lac [i.e. BDT 47.5 lac × 20%] as the CCF for this transaction is 20%.</p>														
16	Revision of Definition of Market Risk , Para-3.2.1, Chapter – 3, Page - 26	Generally, investments which are held for trading and readily available for sale are major parts of the trading book. To be mentioned that all listed shares have to be included in the trading book. In addition, positions should be prudently and accurately valued, and the portfolio should be actively managed.														
17	Correction in Table – 11, Chapter – 3, Colum – 4, Page -30	Banks may use the following formula to measure interest rate sensitivity of the instrument: $\Delta \text{MVE} = -\text{DGAP} * [\Delta i / (1+y)] * \text{Total asset}$														
18	Correction in Para-3.5.6.2 Chapter-3, Page-35	The capital charge will be at the rate of the required minimum capital adequacy ratio of the overall net open position. For example, we may assume that a bank has long and short positions in Yen, Euro, GBP, Australian dollar and US dollar and the minimum capital adequacy ratio is 8% as given below in Table 15.														

19.	Replacement of 'Model Risk' by 'Evaluation of Core Risk Management' in Para 5.5.3 Chapter 5, Page 47	Evaluation of Core Risk Management: Core risk management guidelines are provided with the banks with a view to enhance knowledge, skill and to introduce uniform risk management system in the banks. No-compliance of core risk management comes out of under-estimation of assessment procedure, valuation, level of implementation etc. and leads to the bank's financial losses. It may be caused by the negligence, knowledge limits, insufficient data or changes which make approaches imperfect. To check these issues management of core risks and its rating could be evaluated and disregard of core risks management may be linked with the additional capital requirement. The bank should assess the potential deficiencies of the applied methods and take them into consideration during the SRP. If BB finds the capital requirement of the bank calculated with the applied methods insufficient to cover its risks at the time of its review, it may require the banks to take specific action or raise additional capital determined through the SRP-SREP dialogue.
20.	Deletion of 'Country Risk' in Para 5.5.5 Chapter 5, Page 48	"Deleted"
19.	Inclusion in Reporting Format, Eligible Capital: Row – 2.9, Page - 68	Deductions if any (e.g. Investments in subsidiaries which are not consolidated - 50%)

The above amendments along with the necessary changes in the reporting format have been included in the "**Revised Guidelines on Risk Based Capital Adequacy (RBCA) for Banks**", December 2010 which will replace the earlier RBCA guideline, August 2010.

This circular along with the revised guidelines are available on the websites of Bangladesh Bank.

Please acknowledge receipt.

Encl as stated above.

Yours Sincerely,



(K.M. Abdul Wadood)
General Manager (In Charge)
Phone : 7117825

Long Term Rating Category Mapping

BB's Rating Grade	Equivalent Rating of S&P and Fitch	Equivalent Rating of Moody	Equivalent Notch/Notation of CRISL	Equivalent Notch/Notation of CRAB	Equivalent Notch/Notation of NCRL	Equivalent Notch/Notation of ECRL
1	AAA to AA	Aaa to Aa	AAA	AAA	AAA	AAA
			AA+, AA, AA-	AA1, AA2, AA3	AA+, AA, AA-	AA+, AA, AA-
2	A	A	A+, A, A-	A1, A2, A3	A+, A, A-	A+, A, A-,
3	BBB	Baa	BBB+, BBB, BBB-	BBB1, BBB2, BBB3	BBB+, BBB, BBB-	BBB+, BBB, BBB-
4	BB to B	Ba to B	BB+,BB, BB-	BB1, BB2, BB3,	BB+, BB, BB-,	BB+, BB, BB-
5	Below B	Below B	B+, B, B- CCC+, CCC, CCC- CC+, CC, CC-	B1, B2, B3 CCC1, CCC2, CCC3 CC	B+, B, B-	B+, B, B-
6			C+, C, C-, D	C, D	C+, C, C-, D	C, D

Short Term Rating Category Mapping

S1	F1+	P1	ST-1	ST-1	N1	ECRL-1
S2	F1	P2	ST-2	ST-2	N2	ECRL-2
S3	F2	P3	ST-3	ST-3	N3	ECRL-3
S4	F3	NP	ST-4	ST-4	N4	ECRL-4
S5, S6	B,C ,D		ST-5, ST-6	ST-5 ,ST-6	N5	D