Fax No.
0091-22-2183785, 2188770

E-mail address
<rbidboco@bom3.vsnl.net.in>

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
CENTRE - 1, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI - 400 005

Post Box No. 6089

VSAT address
<cgmincdbod@rbi.org.in>

RBI/2004/245
DBOD No. BP. BC. No.91/21.01.002/2003-04   June 15, 2004

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

**Annual Policy Statement for the year
2004-05 - Risk Weight for Exposure to
Public Financial Institutions (PFIs)**

In terms of guidelines issued vide circular DBOD.BP.BC.103/21.01.002/98 dated October 31, 1998 risk weights on investment in bonds/ debentures of select PFIs were prescribed at 20 per cent. Banks were also advised that exposures to corporates, which are guaranteed by select PFIs, would tantamount to exposure on those PFIs for capital adequacy purposes and would consequently attract a risk weight of 20 per cent.

2. In this connection, a reference is invited to paragraph 118 of the annual policy Statement for the year 2004-2005 enclosed to the Governor's letter No. MPD. BC.249/07.01.01.279/ 2003-04 dated May 18, 2004 (copy of the paragraph enclosed). Accordingly, banks are advised that with effect from April 1, 2005, exposures to all PFIs would attract a uniform risk weight of 100 per cent towards credit risk.

3. Please acknowledge receipt.

Yours faithfully,

(C R Muralidharan)
Chief General Manager-in-Charge

Extract from Annual Policy Statement for the year 2004-05

"(d) Risk Weight for Exposure to Public Financial Institutions

118. At present, exposures of banks/FIs to specified public financial institutions (PFIs) attract a risk weight of 20 per cent for capital adequacy purposes. The financial positions of PFIs are divergent. As such, preferential treatment to PFIs for capital adequacy purposes on a privileged basis is not justified. Accordingly, it is proposed that:

- *With effect from April 1, 2005, exposures on all PFIs will attract a risk weight of 100 per cent."*