

RBI defers Basel-III norms for forex derivatives

The Reserve Bank of India (RBI) on Thursday postponed the implementation of Basel-III regulations for the currency derivatives segment to next January, pending resolution of norms regarding trade settlement, even as it said the new capital adequacy requirements could kick in from Sunday.

"In view of the shift in the start date of Basel III implementation, all instructions applicable as on January 1, except those relating to the credit valuation adjustment (CVA) risk capital charge for over-the-counter derivatives, would become effective from April 1, with banks disclosing Basel III capital ratios from the quarter ending June 30, 2013," the apex bank said in a notification this evening.

The CVA is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of a counter-party's default. In other words, CVA is the market value of the counter-party's credit risk.

Giving the rationale behind the delay, the central bank said as the introduction of mandatory forex forward guaranteed settlement through a central counter-party has been deferred pending resolution, the CVA risk capital charges would be effective from January next.

It is to be noted that RBI wants all lenders to settle currency forwards through one clearing house, which some foreign lenders are opposed to, due to lack of clarity in rules.

On the common Tier-I capital, the central bank said banks would have to derecognise all accounting valuation adjustments arising from the bank's own credit risk with regard to derivative liabilities.

"The offsetting between valuation adjustments arising from the bank's own credit risk and those arising from its counterparties' credit risk is not allowed," the revised circular said.

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