

Monetary and Credit Policy Measures – Prudential Norms on Income Recognition, Asset Classification, Provisioning, etc. – Provision on Standard Assets

Ref DBS.FID No.C. 8 /01.03.00/2000-2001

October 11, 2000

The Chairmen / Chief Executive Officers
All India Term Lending & Refinancing Institutions

Dear Sir,

Monetary and Credit Policy Measures – Prudential Norms on Income Recognition, Asset Classification, Provisioning, etc. – Provision on Standard Assets

Please refer to the “Mid Term Review of Monetary and Credit Policy” for the year 2000-2001 forwarded to you vide our Circular Letter DBS.FID.No.H6/02.01.00/2000-2001 dated October 10, 2000. The guidelines in regard to the policy measures stated in paragraph 44(a) of the statement are given below:

**Provision on Standard Assets –
Inclusion in Tier II Capital**

In terms of item (ii) of Circular DBS.FID.No.C.17/01.02.00/99-2000 dated May 5, 2000, the provision on ‘standard assets’ is not eligible for inclusion in Tier II capital. In view of the international best practices followed in this regard, it has been decided to allow Financial Institutions to include ‘General Provisions on Standard Assets’ in Tier II capital. However, the provisions on standard assets together with other ‘General Provisions and Loss Reserves’ should not exceed 1.25 per cent of the total risk weighted assets.

2. Please acknowledge receipt.

Yours faithfully,

(K. C. Bandyopadhyay)
Chief General Manager