प्रेस प्रकाशनी PRESS RELEASE

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July 22, 2014

RBI releases Framework for dealing with Domestic Systemically Important Banks (D-SIBs)

The Reserve Bank of India today released on its website, the Framework for dealing with Domestic Systemically Important Banks (D-SIBs).

During the recent global financial crisis, it was observed that problems faced by certain large and highly interconnected financial institutions hampered the orderly functioning of the financial system, which in turn, negatively impacted the real economy. Government intervention was considered necessary in many jurisdictions to ensure financial stability. Cost of public sector intervention and consequential increase in moral hazard require that future regulatory policies should aim at reducing the probability of failure of Systemically Important Banks (SIBs) and the impact of the failure of these banks.

In October 2010, the Financial Stability Board (FSB) recommended that all member countries needed to have in place a framework to reduce risks attributable to Systemically Important Financial Institutions (SIFIs) in their jurisdictions. The Basel Committee on Banking Supervision (BCBS) came out with a framework in November 2011 for identifying the Global Systemically Important Banks (G-SIBs) and the magnitude of additional loss absorbency capital requirements applicable to these G-SIBs. The BCBS further required all member countries to have a regulatory framework to deal with Domestic Systemically Important Banks (D-SIBs).

The Framework released today discusses the methodology to be adopted by RBI for identifying the D-SIBs and additional regulatory / supervisory policies which D-SIBs would be subjected to. The assessment methodology adopted by RBI is primarily based on the BCBS methodology for identifying the G-SIBs with suitable modifications to capture domestic importance of a bank. The indicators which would be used for assessment are: size, interconnectedness, substitutability and complexity. Based on the sample of banks chosen for computation of their systemic importance, a relative composite systemic importance score of the banks will be computed. RBI will determine a cut-off score beyond which banks will be considered as D-SIBs. Based on their systemic importance scores in ascending order, banks will be plotted into four different buckets and will be required to have additional Common Equity Tier 1 capital requirement ranging from 0.20% to 0.80% of risk weighted assets, depending upon the bucket they are plotted into. Based on the data as on March 31, 2013, it is expected that about 4 to 6 banks may be designated as D-SIBs under various buckets. D-SIBs will also be subjected to differentiated supervisory requirements and higher intensity of supervision based on the risks they pose to the financial system.

The computation of systemic importance scores will be carried out at yearly intervals. The names of the banks classified as D-SIBs will be disclosed in the month of August every year starting from 2015.

Background

The draft framework for dealing with D-SIBs was placed on the Reserve Bank's website on December 2, 2013 for views and comments. While finalising the framework for dealing with D-SIBs, views and comments received on the draft framework have been taken into account. It was announced in the First Bi-monthly Monetary Policy Statement issued on April 1, 2014 that based on the comments/feedback received on the draft framework for dealing with D-SIBs, the final framework will be issued by end-May 2014.

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Press Release : 2014-2015/155