

F. No. 7/124/2012-BOA
Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building, Sansad Marg
New Delhi, dated the 26th September, 2012

To, inadvertently

The Chief Executives of all Public Sector Banks.

Subject : Master Circular on Asset Liability Management (ALM).

Dear Sir,

The Government of India has issued guidelines / instructions to banks on ALM. In order to have these guidelines / instructions at one place for ready reference, a Master Circular incorporating the existing guidelines / instructions issued by the Government on the subject has been prepared.

2. All CEOs are requested to acknowledge receipt and ensure compliance of the above guidelines in their PSBs and Regional Rural Banks (RRBs) sponsored by their banks.
3. This issues with the approval of Secretary (FS).

Yours faithfully,

Sd-
(Pravin Rawal)
Deputy Secretary (BOA)

Encl: As above

1. Guidelines on Asset Liability Management.

An analysis of Asset Liability Management (ALM) risk with respect to Public Sector Banks (PSBs) was done in this Department. From the analysis, it appeared that in order to garner deposits and increase balance sheet size, PSBs tended to raise deposits and Certificates of Deposits at very high rates, which were close to 12% p.a. It was felt that mobilization of such deposits at unsustainably high rates not only adversely affects the profitability of PSBs but also their ALM.

2. Accordingly, certain guiding principles for 'Prevention of Asset Liability Management (ALM) Risk' on account of excessive deposit taking by PSBs were formulated and sent to all PSBs on 27.04.2012 for their comments.

3. The comments from PSBs have since been received and the same have been analyzed in this Department. The analysis shows that there are banks which have solicited Bulk Deposits at higher differential rates than the rates suggested in the guiding principles.

4. Keeping in view the above and the fact that most of the PSBs are already, in practice, following the guiding principles while soliciting deposits, the following guidelines for 'Prevention of Asset Liability Management (ALM) Risk' on account of excessive deposit taking by PSBs have been evolved:

- i. Bulk Deposits at rates higher than Card Rates should not exceed more than 10% of the total deposits of the Bank at any given point of time during the year 2012-13; and thereafter*
- ii. Total of Bulk Deposits (at rates higher than Card Rates) and Certificates of Deposit should not exceed 15% of total deposits of the bank at any given point of time;*
- iii. An appropriate time-bound strategy for a monthly reduction of such existing bulk deposits should be put in place to achieve the target by March,2013;*
- iv. Only 25% of net bulk deposits (at rates higher than Card Rates) and Certificates of Deposit can be mobilized between 1st January and 31st March of the Financial Year; and*

- v. *Asset-Liability Committee (ALCO) may decide to go beyond these norms in case of any exigency but the same be brought back within limits by the end of the next month. This has to be under exceptional circumstances only.*

5. it was clarified that **'Bulk Deposits'** wherever appearing in the aforesaid communication would mean **'any amount of deposit solicited at rates higher than Card Rates.'**

2. Guidelines on Surplus Funds of Central Public Sector Enterprises (CPSEs).

Based on the discussions in the meetings of the then Financier Minister with the CMDs of Public Sector Banks (PSBs), CMDs of major Central Public Sector Enterprises (CPSEs) and the Secretaries of the Administrative Ministries in November, 2008 and in order to moderate the cost of credit, instructions were issued by this Department vide letter of even number dated 3rd December, 2008 to be followed by all CPSEs and PSBs. However, it has been observed that the said instructions are not being followed by PSBs and CPSEs in their 'letter and spirit'. It is reiterated that the instructions are still relevant and are required to be followed not only by CPSEs and PSBs but also by all other Banks and Public Sector Financial Institutions (PSFI) and Public Sector Insurance Companies (PSIC).

2 For convenience the instructions are appropriately modified and reproduced hereunder:

- (i) All Banks are advised to publish their card rates for bulk deposits of Rs. 1 crore and above. In order to bring about a level playing field, banks may consider uniform card rates for bulk deposits for different maturities at least up to one year across banks.
- (ii) In order to broaden the coverage of availability of surplus funds, all CPSEs/PSFIs/PSICs are advised that surplus funds may be placed with one or more banks, subject to their internal exposure guidelines as this would be in the larger interest of the system and spread the resources among the banks.

(iii) CPSEs/PSFIs/PSICs shall not deploy their funds through a bidding process with any Bank or withdraw the funds from any Bank pre-maturely for depositing them elsewhere.

(iv) It is clarified that placing of deposits with banks at Card rates will be deemed to be a transparent process in terms of DPE OM NO. 4/6/94-Fin. Dated 14th December, 1994, as amended from time to time.

3. PSBs have been requested to bring these instructions to the notice of all concerned with the directions that the above guidelines be followed in 'letter and spirit'. Further, all concerned may also be appropriately advised that deviation from the above instructions may be treated as violation of instructions of the Government.

Circulars on Asset Liability Management (ALM) :

S.no.	Circular / Letter No.	Date	Subject
1	F.No. 7/79/2012-BOA	06.07.2012	Guidelines on Asset Liability Management
2.	F.No. 7/150/2008-BOA	16.07.2012	Investment of surplus fund of Central Public Sector Enterprises (CPSEs)