



NB.DoS.HO.POL. / 966 /J-1/2018-19

6 June 2018

Circular No. 132 /DoS-26 /2018

Chairman, All RRBs
Managing Director / Chief Executive Officer of
All the State Cooperative Banks (StCBs/
District Central Cooperative Banks (DCCBs)

Madam / Dear Sir

Off Balance Sheet (OBS) Items-Risk Management and Linking with the CBS

RBI/NABARD have been advising banks from time to time about the major fraud prone areas and the safeguards necessary for prevention of frauds. Recently, there have been reports of frauds perpetrated in OBS transactions in some of the banks. The issue was discussed in the 69th meeting of Board of Supervision-BoS (for StCBs, DCCBs, and RRBs) held on 27 Feb 2018, wherein the BoS advised, inter-alia, that the banks should strictly maintain a complete data of the OBS transactions, follow the RBI/NABARD instruction regarding risk containment and disclosure of all the OBS transactions in the annual financial statements, and also ensure complete integration of the OBS transaction data with the CBS.

2. Off balance sheet (OBS) items refer to assets or liabilities of a bank that do not appear on the bank's balance sheet. While it is appreciated that OBS transactions may not necessarily be intended to be deceptive or misleading to existing or prospective stake holders, they do hold the potential to jeopardize the financial health of the bank, if not handled with care.

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

पर्यवेक्षण विभाग

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3. We, therefore, reiterate that banks should have in place a sound risk management system as advised vide our Circular No Circular No 67/DoS-09/2005 dated 6 April 2005 addressed to RRBs and StCBs/DCCBs, Circular No 236/DoS-29/2011 dated 24 Nov 2011 addressed to RRBs, and Circular No 238/DoS-31/2011 dated 24 Nov 2011 addressed to StCBs/DCCBs. As all banks are now on the CBS platform, it is advised to ensure that all the OBS transactions are invariably captured on the CBS platform. Banks should initiate measures to identify the OBS transactions which are not so integrated with the CBS, and link those items with the CBS immediately. Management may review all the outstanding OBS items/transactions at regular intervals, and a note on the subject should be placed before the Board in its meetings on a quarterly basis.

Please acknowledge receipt.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "K R Rao", is written over a horizontal line.

(K R Rao)
Chief General Manager

Encl: List of OBS items-1 sheet

Annexure

List of Off Balance Sheet (OBS) Items

OBS items could be grouped as under, keeping in view the risk weights:

1. General Guarantees of indebtedness (Direct credit substitutes),
2. Performance Guarantees/Performance Bonds/Bid Bonds/Warranties/Standby L/Cs related to particular transactions (Transaction related contingent items),
3. Guarantees issued by banks against the counter guarantees of other banks. (In these cases, banks should be fully satisfied that the risk exposure is in fact on the other bank.),
4. Standby Letters of Credit-L/Cs serving as financial guarantees for loans and securities (Direct credit substitutes)
5. Letter of Undertaking (LOU),
6. Letter of Comfort,
7. Banker's Acceptance-BA including endorsements with the character of acceptance,
8. Bank Endorsements,
9. Transactions/Asset sale with Recourse (Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank),
10. Forward asset purchase, forward deposit and partly paid shares and securities, which represent commitments with certain draw down.
11. Claims against bank not acknowledged as debt,
12. Short-term self-liquidating trade-related contingencies (such as documentary credits collateralized by the underlying shipments,
13. Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank. In these cases, banks should be fully satisfied that the risk exposure is, in fact, on the other bank.
14. Note issuance facilities and revolving underwriting facilities,
15. Other commitments-Undrawn committed credit lines/formal standby facilities with an original maturity up to one year, or which can be unconditionally cancelled at any time,
16. Similar commitments (e.g., undrawn committed credit lines/formal standby facilities) with an original maturity of over one year.
17. Aggregate outstanding foreign exchange contracts of original maturity-(a) less than 14 calendar days, (b) more than 14 calendar days but less than 1 year, (c) more than 1 year (to be shown separately for each additional year or part thereof)
