

Final directions on minimum capital requirements for market risk

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Why is in news?

The RBI issues final directions on **minimum capital requirements for market risk**.

Objective

- Commercial banks will have until April 1, 2027, to implement the revised framework for minimum capital requirements for market risk.
- It seeks to align India's regulatory framework with the **revised Basel III standards** while providing banks with flexibility and simplicity in implementation.
- Under the revised framework, the RBI has removed specific instructions defining the trading book, as its Investment Directions already provide an identifiable trading book through the Held for Trading (HFT) accounting sub-classification.
- The framework also incorporates revised provisions relating to Net Open Position and foreign exchange risk capital charges, in line with the RBI's Commercial Banks – Prudential Norms on Capital Adequacy Tenth Amendment Directions, 2026.
- For interest rate risk, the specific risk tables have been revised to align with guidelines issued by the **Basel Committee on Banking Supervision (BCBS)**.
- The capital treatment of debt mutual funds and exchange-traded funds (ETFs) held in the trading book has also been revised.
- Capital requirements will be calculated based on underlying risk drivers while maintaining appropriate safeguards.

Basel III standards

- **Basel III norms** are a set of international banking regulations developed by the Basel Committee on Banking Supervision to strengthen bank capital requirements, governance, and risk management following the 2007-2008 financial crisis.
- Banks must maintain a higher quality of capital.
- The Common Equity Tier 1 (CET1) ratio must be at least 4.5% of risk-weighted assets (RWA), and the total Capital Adequacy Ratio (CAR) must be 8% globally.



Reference

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