# SBI'S SUGGESTIONS ON THE PROPOSED SMA

1. Upper cap for NIM to be set at 2.5%
   a. To prevent overcapitalization of banks with a high NIM, BCBS has introduced a normalization ratio for high margin banks, defined as those with NIM greater than 3.5%.
   b. However, it is felt that the cap for NIM may be further reduced to 2.5% to neutralize the effect of higher NIM on the banks' capital.

2. Capital relief for best practices as part of PSMOR
   a. CD envisages encouraging all Banks, irrespective of the use of loss component under SMA, to comply with BCBS Principles for PSMOR, as it is currently being done.
   b. Banks following PSMOR may be given a capital relief of say 10%-15% based on proxy/parameters to be determined either by BCBS or National Regulator.
   c. This will give a forward looking dimension to the SMA process, which otherwise depends on BI and Internal Loss.

3. Internal loss component for "Bucket 1" banks
   a. Internal losses should also be included as a component in the capital calculation for banks having BI in the range of 0 to 1 Bn € (i.e. falling in Bucket 1). Otherwise, Bucket 1 will continue to be akin to BI Approach.
   b. Continuing with such provision will not prompt Banks to put in place mechanism for collection of internal loss data as being proposed under SMA.
   c. BCBS may consider providing lead time of 3/5 years to the Banks presently on BIA and falling in Bucket 1 before standardising the approach.
   d. Non-availability of internal loss or infirmities/deficiencies may invite penalties after the lead time.

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