



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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January 07, 2014

The Chairmen
All Regional Rural Banks

Dear Sir/Madam,

Guidelines for Classification and Valuation of Investments

Please refer to our [circular RPCD.RRB.BC.No.59/03.05.34/2010-11 dated April 11, 2011](#), in terms of which RRBs were exempted from 'Mark to Market' (MTM) norms in respect of their entire investment in SLR securities, upto the financial year 2012-13. It has now been decided to withdraw the exemption from MTM norms given to RRBs in respect of the entire portfolio of SLR securities. Accordingly, RRBs are advised to introduce MTM norms in respect of SLR securities w.e.f. April 01, 2014.

2. The revised guidelines on classification and valuation of investments are furnished in the Annex. The salient features of the revised guidelines are as under :

- RRBs are required to classify their entire investment portfolio, as on April 01, 2014 under three categories viz. 'Held to Maturity', 'Available for Sale' and 'Held for Trading'.
- In the balance sheet, the investments will continue to be disclosed as per the existing five classifications viz. i) Government securities ii) Other approved securities iii) Shares iv) Debentures & Bonds v) Others (Mutual Fund Units, etc.).
- The investments included under 'Held to Maturity' should not exceed 25 per cent of the bank's total investments. The limit can be exceeded if the excess comprises SLR securities and the total SLR securities held in the HTM category is not more than 24.5 per cent of their DTL as on the last Friday of the second preceding fortnight.
- The investments under the Available for Sale and Held for Trading categories should be marked to market periodically as indicated in the Annex.
- The investments under the Held to Maturity category need not be marked to market as in the case of 'Permanent' securities at present.
- Classification of investments, shifting of investments among the three categories, valuation of the investments, methodology for booking profit/loss on sale of

ग्रामीण आयोजना और ऋण विभाग, केन्द्रीय कार्यालय, 10 वीं मंजिल, केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, पोस्ट बॉक्स सं. 10014, मुंबई - 400 001

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हिंदी आसान है, इसका प्रयोग बढ़ाइए।

“चेतावनी : रिज़र्व बैंक द्वारा मेल-डाक, एसएमएस या फोन कॉल के जरिए किसी की भी व्यक्तिगत जानकारी जैसे बैंक के खाते का ब्यौरा, पासवर्ड आदि नहीं मांगी जाती है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी तरीके से जवाब मत दीजिए।”

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investments and providing for depreciation should be in accordance with the guidelines in the Annex.

- The risk-weights assigned to the various securities at present would remain unchanged.

2.1 The classification of the existing investments among the three categories may be done at the book value of the respective securities as on April 01, 2014. Subsequent valuation of the securities included under the Held for Trading and the Available for Sale categories may be carried out as specified in the revised guidelines. The first such revaluation may be done, as on April 01, 2014, for the securities under the Held for Trading and Available for Sale categories.

2.2 RRBs should formulate an Investment Policy with the approval of their Board of Directors to take care of the requirements on classification, shifting and valuation of investments under the revised guidelines. Besides, the Policy should adequately address risk-management aspects, ensure that the procedures to be adopted by the banks under the revised guidelines are consistent, transparent and well documented to facilitate easy verification by inspectors and statutory auditors.

3. Please acknowledge receipt to the respective Regional Office.

Yours faithfully

(A. Udgata)
Principal Chief General Manager

Annex : as above

Guidelines for Classification and Valuation of Investment by RRBs

1. Categorisation

The entire investment portfolio of the RRBs comprising SLR securities and non-SLR securities will be classified under three categories viz. 'Held to Maturity', 'Available for Sale' and 'Held for Trading'. However, in the Balance Sheet, the investments will continue to be disclosed as per the existing five classifications viz. (1) Government Securities (2) Other approved securities (iii) Shares (iv) Debentures & Bonds (v) Others like Mutual Fund units, etc. RRBs should decide the category of the investment at the time of acquisition and the decision should be recorded on the investment proposals.

1.1 Definitions

The securities acquired by the RRBs with the intention to hold them up to maturity will be classified under Held to Maturity (HTM). The securities acquired by the RRBs with the intention to trade by taking advantage of the short-term price/interest rate movements will be classified under Held for Trading (HFT). The securities which do not fall within the above two categories will be classified under Available for Sale (AFS).

1.2 Held to Maturity

- i. The investments included under 'Held to Maturity' should not exceed 25 per cent of the bank's total investments. However, RRBs are permitted to exceed the limit of 25 per cent of their total investments under HTM category provided:
 - a) the excess comprises only of SLR securities and
 - b) the total SLR securities held in the HTM category is not more than 24.5 per cent of their DTL as on the last of the second preceding fortnight.
- ii. Profit on sale of investments in this category should be first taken to the Profit & Loss Account and thereafter be appropriated to the 'Capital Reserve Account'. Loss on sale will be recognised in the Profit & Loss Account.
- iii. No Non-SLR securities are permitted to be included in HTM.

1.3 Available for Sale & Held for Trading

- i. RRBs will have the freedom to decide on the extent of holdings under Available for Sale and Held for Trading. This will be decided by them after considering various

aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, capital position.

- ii. The investments classified under Held for Trading category would be those from which the RRB expects to make a gain by the movement in the interest rates / market rates. These securities are to be sold within 90 days.
- iii. Profit or loss on sale of investments in HFT & AFS categories will be taken to the Profit & Loss account.

2. Shifting among categories

- i. RRBs may shift investments to/from HTM category with the approval of the Board of Directors once a year. Such shifting will normally be allowed at the beginning of the accounting year. No further shifting to/from this category will be allowed during the remaining part of that accounting year.
- ii. The RRBs may shift investments from AFS to HFT category with the approval of their Board of Directors/ALCO/Investment Committee. In case of exigencies, such shifting may be done with the approval of the Chairman of the bank, but should be ratified by the Board of Directors/ALCO.
- iii. Shifting of investments from HFT to AFS category is generally not allowed. However, it will be permitted only under exceptional circumstances like not being able to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or market becoming unidirectional, with the approval of the Board of Directors/ALCO/Investment Committee.
- iv. Transfer of scrips from one category to another, under all circumstances, should be done at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer should be fully provided for.
- v. Transfer of scrips from AFS / HFT category to HTM category should be made at the lower of book value or market value. In other words, in cases where the market value is higher than the book value at the time of transfer, the appreciation should be ignored and the security should be transferred at the book value. In cases where the market value is less than the book value, the provision against depreciation held against this security (including the additional provision, if any, required based on valuation done on the date of transfer) should be adjusted to reduce the book value to the market value and the security should be transferred at the market value.
- vi. In the case of transfer of securities from HTM to AFS / HFT category:

- (a) If the security was originally placed under the HTM category at a discount, it may be transferred to AFS / HFT category at the acquisition price / book value. (It may be noted that as per existing instructions banks are not allowed to accrue the discount on the securities held under HTM category and, therefore, such securities would continue to be held at the acquisition cost till maturity). After transfer, these securities should be immediately re-valued and resultant depreciation, if any, may be provided.
- (b) If the security was originally placed in the HTM category at a premium, it may be transferred to the AFS / HFT category at the amortised cost. After transfer, these securities should be immediately re-valued and resultant depreciation, if any, may be provided.
- vii. In the case of transfer of securities from AFS to HFT category or vice-versa, the securities need not be re-valued on the date of transfer and the provisions for the accumulated depreciation, if any, held may be transferred to the provisions for depreciation against the HFT securities and vice-versa.

3. Valuation of Investments

3.1 Valuation Standards

- i. Investments classified under **Held to Maturity** category need not be marked to market and will be carried at acquisition cost unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity. The banks should reflect the amortised amount in schedule 13-Interest earned: item II – Income on investments as a deduction. However, the deduction need not be disclosed separately. The book value of the security should continue to be reduced to the extent of the amount amortised during the relevant accounting period.
- ii. The individual scrips in the **Available for Sale** category will be marked to market at quarterly or at more frequent intervals. The book value of the individual securities would not undergo any change after the revaluation.
- iii. The individual scrips in the **Held for Trading** category will be marked to market at monthly or at more frequent intervals. The book value of individual securities in this category would not undergo any change after marking to market.

Note: Securities under AFS & HFT shall be separately valued scrip-wise and depreciation/appreciation shall be aggregated for each balance sheet classification referred to in para 1 above. The investment in a particular classification may be aggregated for the purpose of arriving at net depreciation/appreciation of investments under that category. Net

depreciation, if any, shall be provided for. Net appreciation, if any, should be ignored. Net depreciation required to be provided for, in any one classification should not be reduced on account of net appreciation in any other classification.

The provisions required to be created on account of depreciation in the AFS and HFT category in any year should be debited to the Profit and Loss Account and an equivalent amount (net of tax benefit, if any, and net of consequent reduction in the transfer to Statutory Reserve) or the balance available in the Investment Fluctuation Reserve (IFR) Account, whichever is less, shall be transferred from the IFR Account to the Profit and Loss Account. In the event provisions created on account of depreciation in the AFS and HFT category are found to be in excess of the required amount in any year, the excess should be credited to the Profit and Loss Account and an equivalent amount (net of taxes, if any, and net of transfer to Statutory Reserves as applicable to such excess provision), should be appropriated to the IFR Account to be utilised to meet future depreciation requirement for investments in this category. The amounts debited to the Profit and Loss Account for provision and the amount credited to the Profit and Loss Account for reversal of excess provision should be debited and credited respectively under the head 'Expenditure - Provisions & Contingencies'. The amounts appropriated from the Profit and Loss Account and the amount transferred from the IFR Account to the Profit and Loss Account should be shown as "below the line" items after determining the profit for the year. The IFR Account should be shown as a separate item in Schedule 2 "Reserves and Surplus" under the Head "Revenue and other Reserves".

3.2 Market Value

(A) Quoted Securities

The 'market value' for the purpose of periodical valuation of investments included in the Available for Sale and the Held for Trading categories would be the market price of the scrip as available from the trades/quotes on the stock exchanges, SGL account transactions, price list of RBI, prices declared by Primary Dealers Association of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA) periodically.

(B) Unquoted SLR securities

In respect of unquoted securities, the procedure as detailed below should be adopted.

a) Central Government Securities:

- i. The banks should value the unquoted Central Government securities on the basis of the prices/YTM rates put out by the PDAI/ FIMMDA at periodical intervals.
- ii. The 6.00 per cent Capital Indexed Bonds may be valued at "cost" as defined in circular DBOD.No.BC.8/12.02.001/97-98 dated January 22, 1998 and BC.18/12.02.001/2000-01 dated August 16, 2000.
- iii. Treasury Bills should be valued at carrying cost.

b) State Government Securities:

- i. State Government securities will be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by PDAI/FIMMDA periodically.

c) Other Approved Securities:

- i. Other approved securities will be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by PDAI/FIMMDA periodically.

(C) Unquoted non-SLR securities

a) Debentures/Bonds:

All debentures/bonds should be valued on the YTM basis. Such debentures/bonds may be of different companies having different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government securities as put out by PDAI/FIMMDA periodically. The mark-up will be graded according to the ratings assigned to the debentures/bonds by the rating agencies subject to the following :

- i. The rate used for the YTM for rated debentures/bonds should be at least 50 basis points above the rate applicable to a Government of India loan of equivalent maturity.
- ii. Where the debenture/bonds is quoted and there have been transactions within 15 days prior to the valuation date, the value adopted should not be higher than the rate at which the transaction is recorded on the stock exchange.

b) Special Securities:

Special securities directly issued by the Government of India to the beneficiary entities,

which do not carry SLR status, may be valued at a spread of 25 basis points above the corresponding yield on GOI securities. At present, such special securities comprise Oil Bonds, Fertiliser Bonds, bonds issued to the State Bank of India (during recent rights issue), Unit Trust of India, Industrial Finance Corporation of India Ltd., Food Corporation of India, Industrial Development Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.

c) Preference Shares:

The valuation of preference shares should be on YTM basis. The preference shares will be issued by companies with different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government securities put out by the PDAI/FIMMDA periodically. The mark-up will be graded according to the ratings assigned to the preference shares by the rating agencies subject to the following:

- i. The YTM rate should not be lower than the coupon rate/YTM for a GOI loan of equivalent maturity.
- ii. Where preference dividends are in arrears, no credit should be taken for accrued dividends and the value determined on YTM should be discounted by at least 15% if arrears are for one year, and more if arrears are for more than one year. The depreciation/provision requirement arrived at in the above manner in respect of nonperforming shares where dividends are in arrears shall not be allowed to be set-off against appreciation on other performing preference shares.
- iii. The preference shares should not be valued above its redemption value.
- iv. When a preference share has been traded on stock exchange within 15 days prior to the valuation date, the value should not be higher than the price at which the share was traded.

d) Equity Shares:

Equity shares in the RRB's portfolio should be marked to market preferably on a daily basis but atleast on a weekly basis. Equity shares for which current quotations are not available or where the shares are not quoted on the stock exchanges, should be valued at break-up value (without considering 'revaluation reserves', if any) which is to be ascertained from the company's latest balance sheet (which should not be more than one year prior to the date of valuation). In case the latest balance sheet is not available the shares are to be valued at Re. 1 per company.

e) Mutual Fund Units:

Investment in quoted Mutual Fund Units should be valued as per Stock Exchange quotations. Investment in un-quoted Mutual Fund Units is to be valued on the basis of the latest re-purchase price declared by the Mutual Fund in respect of each particular Scheme. In case of funds with a lock-in period, where repurchase price/market quote is not available, units could be valued at NAV. If NAV is not available, then these could be valued at cost, till the end of the lock-in period. Wherever the repurchase price is not available the units could be valued at the NAV of the respective scheme.

3.3 Non-Performing Investments (NPI)

3.3.1 In respect of securities included in any of the three categories where interest/ principal is in arrears, the banks should not reckon income on the securities and should also make appropriate provisions for the depreciation in the value of the investment. The banks should not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

3.2.2 An NPI, similar to a non performing advance (NPA), is one where:

- i. Interest/ installment (including maturity proceeds) is due and remains unpaid for more than 90 days.
- ii. The above would apply mutatis-mutandis to preference shares where the fixed dividend is not paid. If the dividend on preference shares (cumulative or noncumulative) is not declared/paid in any year it would be treated as due/unpaid in arrears and the date of balance sheet of the issuer for that particular year would be reckoned as due date for the purpose of asset classification.
- iii. In the case of equity shares, in the event the investment in the shares of any company is valued at Re.1 per company on account of the non availability of the latest balance sheet, those equity shares would also be reckoned as NPI.
- iv. If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities, including preference shares issued by the same issuer would also be treated as NPI and vice versa. However, if only the preference shares are classified as NPI, the investment in any of the other performing securities issued by the same issuer may not be classified as NPI and any performing credit facilities granted to that borrower need not be treated as NPA.

4. General

4.1 Income recognition

- i. Banks may book income on accrual basis on securities of corporate bodies/public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government, provided interest is serviced regularly and as such is not in arrears.
- ii. Banks may book income from dividend on shares of corporate bodies on accrual basis provided dividend on the shares has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.
- iii. Banks may book income from Government Securities and bonds and debentures of corporate bodies on accrual basis, where interest rates on these instruments are predetermined and provided interest is serviced regularly and is not in arrears.
- iv. Banks should book income from units of mutual funds on cash basis.

4.2 Broken Period Interest

Banks should not capitalise the Broken Period Interest paid to seller as part of cost, but treat it as an item of expenditure under P&L Account in respect of investments in Government and other approved securities. It is to be noted that the above accounting treatment does not take into account the tax implications and, hence, the banks should comply with the requirements of Income Tax Authorities in the manner prescribed by them.

4.3 Dematerialised Holding

Banks should settle the transactions in securities as notified by SEBI only through depositories. After the commencement of mandatory trading in dematerialised form, banks would not be able to sell the shares of listed companies if they were held in physical form. In order to extend the dematerialised form of holding to other instruments like bonds, debentures and equities, RRBs are permitted to make fresh investments and hold bonds and debentures only in dematerialised form. Outstanding investment in scrip forms are also required to be converted in dematerialised form.