

Draft Reserve Bank of India (Payments Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025

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Reserve Bank of India (Payments Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025

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In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, the RBI being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified.

Chapter I: Preliminary

A. Short Title

1. These Directions shall be called the Reserve Bank of India (Payments Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

B. Effective Date

2. These Directions shall come into effect from the date of issue.

C. Applicability

3. These Directions shall be applicable to Payments Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank')

D. Definitions

4. For the purpose of these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:

- (1). '**Active market**' is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Explanation: The test for active market is done with reference to the instrument rather than the entire market. For instance, if a particular listed equity share is not traded/ thinly traded on an exchange where other shares are actively traded, this particular share cannot be said to have an active market.

- (2). '**Approved Securities**' shall have the same meaning as defined in Reserve Bank of India (Payments Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Directions, 2025.

- (3). '**Associate**' as defined in Accounting Standard 23: *Accounting for Investments in Associates in Consolidated Financial Statements* ('AS 23')

is an enterprise in which the investor has significant influence, and which is neither a subsidiary nor a joint venture of the investor.

Explanation: For the purpose of this definition, the expression ‘significant influence’ is the power to participate in the financial and/ or operating policy decisions of the investee but not control over those policies. Significant influence is presumed if an investor holds, directly or indirectly through subsidiary/subsidiaries, 20 per cent or more of the voting power of the investee. A bank may refer to AS 23 for further guidance on the term ‘associate’.

- (4). “**Carrying cost**” in the context of zero-coupon discounted instruments such as Treasury Bills, Commercial Paper, Certificate of Deposits and Zero-Coupon Bonds is the acquisition cost adjusted for the discount accrued at the rate prevailing at the time of acquisition.
- (5). ‘**Corporate bonds and debentures**’ mean debt securities which create or acknowledge indebtedness, including (a) debentures, (b) bonds, (c) commercial papers, (d) certificate of deposits, and such other securities of a company, a multilateral financial institution (MFI) or a body corporate constituted by or under a Central Act or a State Act, whether constituting a charge on the assets of the company or body corporate or not, and includes convertible instruments and instruments of a perpetual nature, but does not include (a) debt securities issued by Central Government or a State Government, or such other persons as may be specified by the Reserve Bank, (b) security receipts, and (c) securitisation notes.
- (6). ‘**Current and Valid Credit Rating**’ for the purpose of determining rated security means a credit rating granted by a credit rating agency in India, registered with the Securities and Exchange Board of India (SEBI) and fulfilling the following conditions:
 - i. The credit rating letter and rating rationale from the credit rating agency shall preferably be part of the offer document.
 - ii. The credit rating letter shall not be more than one month old and rating rationale shall not be more than one year old from the date of opening of issue.

iii. In the case of secondary market acquisition, the credit rating of the issue shall be in force and confirmed from the monthly bulletin published by the respective credit rating agency.

Explanation: In the case of overseas investments, the rating used shall be of the international credit rating agencies specified for the purpose of risk weighting for capital adequacy.

- (7). '**Day 1 Gain**' is the difference between the fair value at initial recognition and acquisition cost where such fair value exceeds the acquisition cost.
- (8). '**Day 1 Loss**' is the difference between acquisition cost and the fair value at initial recognition where the acquisition cost exceeds such fair value.
- (9). '**Derecognition**' means the removal of a previously recognized financial instrument from a bank's balance sheet.
- (10). '**Derivative**' shall have the same meaning as assigned to it in section 45U(a) of the Reserve Bank of India Act, 1934 ('RBI Act'), as amended from time to time.
- (11). '**Discount**' in the context of debt securities that meet the solely payments of principal and interest ('SPPI') criteria shall mean the difference between the face value of a debt security and the amount at which that security has initially been recognised in the books.
- (12). '**Exchange**' means "Recognized stock exchange" and shall have the same meaning as defined in Section 2 (f) of Securities Contracts (Regulation) Act, 1956, as amended from time to time. In the case of overseas jurisdictions, it shall refer to an exchange which is recognised or authorised by the securities market regulator of that jurisdiction.
- (13). '**Fair value**' means the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
- (14). '**Financial asset**' is any asset that is cash, the right to receive cash or another financial asset, or an equity instrument.
- (15). '**Financial instrument**' is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include primary financial instruments (or cash instruments) and derivative financial instruments.

- (16). ‘**Financial liability**’ is the contractual obligation to deliver cash or another financial asset.
- (17). ‘**Government security**’ shall have the same meaning as assigned to it in section 2(f) of the Government Securities Act, 2006.
- (18). ‘**Interest**’ for the purpose of determining eligibility under the solely payments of principal and interest (‘SPPI’) criteria consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.
- (19). ‘**Joint Venture**’ as defined in Accounting Standard 27: *Financial Reporting of Interests in Joint Ventures* (‘AS 27’) is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.
- Explanation:* A bank may refer to AS 27 for further guidance on the term ‘joint venture’.
- (20). ‘**Level 1**’ in the context of inputs used for valuation of a financial instrument are those inputs which are quoted prices (unadjusted) in active markets for identical instruments that a bank can access at the measurement date. In reference to the valuation of an instrument, it refers to a valuation that is substantively based on Level 1 inputs and does not have any significant Level 2 or Level 3 inputs.
- (21). ‘**Level 2**’ in the context of inputs used for valuation of a financial instrument are those inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. In reference to the valuation of an instrument, it refers to a valuation that is based on Level 1 and Level 2 inputs and does not have any significant Level 3 inputs.
- (22). ‘**Level 3**’ in the context of inputs used for valuation of a financial instrument are unobservable inputs. In reference to the valuation of an instrument, it refers to a valuation in which there is a significant Level 3 input.
- (23). ‘**Listed security**’ is a security which is listed on an exchange.
- (24). ‘**Low Coupon Bonds**’ are bonds which carry very low coupons that are not market related and are redeemed at maturity with substantial premium.

- (25). ‘**Observable inputs**’ are inputs that are developed using market data, such as publicly available information about actual events or transactions.
- (26). ‘**Other approved securities**’ shall have the same meaning as defined in Reserve Bank of India (Payments Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Directions, 2025.
- (27). ‘**Premium**’ in the context of debt securities that meet the solely payments of principal and interest (SPPI) criteria shall mean the difference between the amount at which a debt security has initially been recognised in the books and the face value of that security.
- (28). ‘**Quoted Security**’ is a security for which market prices are available at exchanges, reporting platforms or trading platforms authorized by RBI / SEBI.
- (29). ‘**Principal market**’ for a financial instrument is the market with the greatest volume and level of activity for that financial instrument.
- (30). ‘**Rated Security**’ means a security which carries a current and valid credit rating.
- (31). ‘**Reconstitution**’ shall have the same meaning as defined in the notification IDMD.1762/2009-10 dated October 16, 2009, on ‘*Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)*’.
- (32). ‘**Repo**’ and ‘**Reverse Repo**’ shall have the same meaning as defined in Section 45U of RBI Act, 1934, as amended from time to time. The word ‘repo’ is used to mean both ‘repo’ and ‘reverse repo’ with the appropriate meaning applied contextually.
- (33). ‘**Securities**’ shall have the same meaning as defined in Section 2(h) of Securities Contracts (Regulation) Act, 1956, as amended from time to time.
- (34). ‘**Securities and Exchange Board of India**’ or ‘**SEBI**’ in the context of securities issued in India refers to the Securities and Exchange Board of India established under the provisions of the Securities and Exchange Board of India Act, 1992.
- Explanation:* In the context of a security issued outside India, references to SEBI in the Master Direction shall be construed as a reference to the overseas securities market regulator of the jurisdiction in which that security was issued.

- (35). ‘**Security Receipts**’ shall have the same meaning as defined in Section 2(1) (zg) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, as amended from time to time.
- (36). ‘**Securitisation note**’ shall be as defined in Reserve Bank of India (Payments Banks – Transfer and Distribution of Credit Risk) Directions, 2025. It shall also include securitised debt instruments (SDIs) issued in terms of the Securities and Exchange Board of India (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008.
- (37). ‘**Statutory Liquidity Ratio (SLR) Securities**’ shall have the same meaning as defined in Reserve Bank of India (Payments Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Directions, 2025.
- (38). ‘**Statutory Reserve**’ refers to the reserve fund created and maintained under the provisions of section 17 of the B R Act, 1949.
- (39). ‘**STRIPS**’ (**Separate Trading of Registered Interest and Principal of Securities**) shall have the same meaning as defined in the notification IDMD.1762/2009-10 dated October 16, 2009 on ‘*Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)*’.
- (40). ‘**Stripping**’ shall have the same meaning as defined in the notification IDMD.1762/2009-10 dated October 16, 2009 on ‘*Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)*’.
- (41). ‘**Unrated Securities**’ means securities which do not have a current and valid credit rating.
- (42). ‘**Unobservable Inputs**’ are those inputs for which market data such as quoted prices, yield curves, bid-offer spreads, etc. are not available and are instead based on assumptions that market participants would use when pricing a financial instrument.
5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the BR Act, the RBI Act, rules/regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II: Role of the Board

6. The Board shall approve the Investment Policy of the bank as specified in paragraph 16.
7. The Board shall constitute an Investment Committee, which shall be responsible and accountable for all investments made by the bank in equity shares, preference shares, convertible instruments, and equity-like products, as specified in paragraph 22.
8. The Board shall set the threshold for determining the impairment of bank's investment in associates or joint ventures as specified in paragraph 64(5).
9. The Board shall provide approval for reclassification of investments between categories (viz. HTM, AFS and FVTPL) as provided in paragraph 66.
10. The Board shall approve the policy governing sale of investments from HTM as specified in paragraph 69.
11. The Board shall be the responsible for ensuring that proper risk management systems are in place for capturing and analyzing the risks in respect of non-SLR investments as specified in paragraph 90(12)(i).
12. The Board shall also review the various aspects of non-SLR investments at least on quarterly intervals as specified in paragraph 90(12)(ii).
13. The Board shall be post facto informed of the breach of the aggregate upper contract limit for individual brokers as specified in paragraph 92(8).
14. The Board shall review on a half yearly basis (as of March 31 and September 30) the bank's investment portfolio. The review shall be placed before the Board within two months from the end of the respective half year, i.e., by end-May and end-November as specified in paragraph 93(1).

Chapter III: General Guidelines

A. Investment Policy Framework

15. A bank shall undertake investment activities as per the terms and conditions specified in these Directions.
16. A bank shall adopt a comprehensive investment policy duly approved by the Board of Directors (Board).
17. The investment policy shall, at the minimum, include:
 - (1). The investment criteria and objectives to be achieved while undertaking investment transactions on bank's own investment account and on behalf of clients.
 - (2). Securities in which investments can be made by the bank.
 - (3). Derivatives in which the bank shall deal.
 - (4). The authority to put through deals.
 - (5). Procedure for obtaining the sanction of the appropriate authority and putting through deals.
 - (6). Adherence to various prudential exposure limits.
 - (7). Policy regarding dealings through brokers, systems for management of various risks, guidelines for valuation of the portfolio and the reporting systems.
18. The investment policy shall be framed to ensure that transactions in securities and derivatives are conducted in accordance with sound and acceptable business practices.
19. The investment policy shall lay down prudential limits for investment in securities including those on private placement basis, sub-limits for Public Sector Undertaking ('PSU') bonds, corporate bonds, guaranteed bonds, issuer ceiling, etc.
20. There shall be proper risk management systems for making investment in corporate bonds which shall include entry-level minimum credit ratings/ quality standards and industry-wise, maturity-wise, duration-wise, issuer-wise, etc., limits to mitigate the adverse impact of concentration and liquidity risk.
21. Investment policy shall cover in detail the procedure for investment in equities and the policy for managing associated risks. A bank shall also build an adequate

expertise in equity research by establishing a dedicated equity research department, commensurate with the scale of its operations.

22. The decision to make investment in equity shares, preference shares, convertible instruments and equity like products shall be taken by the Investment Committee set up by the bank's Board, which will be held accountable for all the investments made by the bank.
23. Investment proposals shall be subjected to the same degree of credit risk analysis as any loan proposal.
24. A bank shall refer to the list of defaulters obtained from Credit Information Companies and Central Repository of Information on Large Credits (CRILC) while taking investment decisions.
25. A bank shall undertake its own internal credit analysis and credit rating even in respect of rated issues and shall not entirely rely on the ratings of external credit rating agencies.
26. A bank shall ensure robust internal credit rating systems which shall also include building up of a system of regular (quarterly or half-yearly) tracking of the financial position of the issuer to ensure continuous monitoring of the rating migration of the issuers/issues.
27. A bank shall settle the transactions in securities and derivatives as per procedure prescribed by the concerned regulator.
28. A bank shall hold its investments in securities, privately placed or otherwise, only in dematerialized form.
29. Investment by offshore branches of an Indian bank shall be in accordance with the Board approved policy on investments. Such policy shall, at the minimum, include risk perception associated with investments, minimum rating requirement, limits, approval process, host country regulations etc.
30. The investment policy shall be suitably framed to also include Primary Dealer (PD) activities where such activities are carried out departmentally.
Further, the PD business undertaken by the bank shall adhere to the instructions contained in Reserve Bank of India Master Direction - Operational Guidelines for Primary Dealers.
31. The exposure (including investments and deposits) to an individual scheduled commercial bank shall not be more than five per cent of the total outside liabilities of the PB.

32. These Directions shall be read with the Directions on Prudential Regulation for Bank' Investments and Portfolio Management Services contained in the Reserve Bank of India (Payments Banks – Undertaking of Financial Services) Directions, 2025.

Chapter IV: Classification of Investments

A. Categorization of investments

33. A bank shall classify its entire investment portfolio (except investments in its own joint ventures and associates) under three categories, viz., Held to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss (FVTPL). *Provided that* the Held for Trading (HFT) shall be a separate investment sub-category within FVTPL.
- Provided further that* the category of the investment shall be decided by the bank before or at the time of acquisition and this decision shall be properly documented.
34. A bank shall present the investments in the Balance Sheet as set out in The Third Schedule to the BR Act (Form A, Schedule 8 - Investments) under the following heads:
- (1). Government securities
 - (2). Other approved securities
 - (3). Shares
 - (4). Debentures & Bonds
 - (5). Subsidiaries and / or joint ventures
 - (6). Others (to be specified)

FAQ1: Whether similar securities can be classified under different categories (viz. HTM, AFS or HFT) - for example, with respect to a debt security fulfilling the Solely Payment of Principal and Interest (SPPI) criteria, whether the quantity/lot acquired at one point in time can be classified in the HTM category while another lot acquired subsequently is classified under different category?

Ans: A bank may have different objectives with which it invests in securities. For instance, a bank may hold a portfolio of debt securities that it manages in order to collect contractual cash flows and another portfolio of similar debt securities that it acquired with the purpose of trading (HFT) or for liquidity purposes (AFS). Therefore, similar securities, even if acquired at the same point of time or in the same lot, can be classified under different

categories if acquired with different objectives. However, the objective with which the securities are being acquired should be clearly established and documented before or at the time of acquisition.

FAQ2: In which category would securities acquired/ held for SLR purposes be classified?

Ans: The classification principles outlined in Chapter IV of these Directions, are not based on criteria used for differentiating between the SLR and non-SLR securities. Accounting classification is based on the objective with which the security was acquired and the SPPI criterion. Therefore, SLR and non-SLR securities that meet SPPI criteria can be classified under HTM, AFS or HFT depending upon the objective with which they have been acquired. Securities that do not meet SPPI criteria would need to be classified under FVTPL (including under HFT sub-category if acquired for trading).

B. Held To Maturity (HTM)

35. A bank shall classify securities under HTM only if the following conditions are met:

- (1). The security is acquired with the intention and objective of holding it to maturity, i.e., the financial assets are held with an objective to collect the contractual cash flows; and
- (2). The contractual terms of the security give rise to cash flows that are solely payments of principal and interest on principal outstanding ('SPPI criterion') on specified dates.

Explanation: "Principal" for the purposes of determining eligibility under the SPPI criteria is fair value of security at initial recognition, and it may change over the life of the security based on repayment or amortisation of premium/discount.

36. Notwithstanding the intent with which the following securities are acquired, they shall not meet the SPPI criteria and therefore shall not be eligible for classification either as HTM or AFS:

- (1). Instruments with compulsorily, optionally or contingently convertible features.
- (2). Instruments with contractual loss absorbency features such as those qualifying for Additional Tier 1 and Tier 2 under Basel III Capital Regulations.
- (3). Instruments whose coupons are not in the nature of interest as defined in Paragraph 4(18) above.
- (4). Preference shares and Equity shares.

Explanation: Where a preference share is redeemable, carries a non-discretionary dividend, with a yield to maturity close to the market rate of borrowing for that issuer and provides for compensation on deferred payment of dividend, it could be evaluated for meeting the SPPI criteria.

Explanation: Equity shares do not meet the SPPI criterion and cannot be included in HTM. However, as provided in paragraph 38, they may be included under AFS subject to certain conditions.

37. Investments in the securitization notes, other than the equity tranche, shall be considered to meet the SPPI criteria if the tranche in which the investment is made meets all the following conditions:

- (1). The contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- (2). The underlying pool of financial instruments meet the SPPI criteria.
- (3). The credit risk of the tranche is equal to or lower than the credit risk of the combined underlying pool of assets.

FAQ4: Can investments in bonds with a put option be classified under the HTM category?

Ans:

- a. *For a security to be classified under HTM category, contractual terms of the security should give rise to cash flows that meets the SPPI criterion and the security must be acquired with the intention and objective of holding it to maturity. Accordingly, the bond with put option meeting these criteria can be classified under HTM.*
- b. *Exercise of put option, prior to maturity, is generally not consistent with the intention and objective of holding to maturity and, therefore, may be treated as sale out of HTM. However, if the put option is exercised in scenarios such as a downgrade in credit ratings or default by the counterparty, the intention and objective of holding to maturity may not be considered as vitiated.*

C. Available for Sale (AFS)

38. A bank shall classify the securities under AFS only if they meet the following conditions:

- (1). The security is acquired with an objective that is achieved by both collecting contractual cash flows and selling securities; and
- (2). The contractual terms of the security meet the ‘SPPI criterion’ as given in paragraph 35(2) above.

Provided that on initial recognition, a bank may make an irrevocable election to classify an equity instrument that is not held with the objective of trading (i.e., not held for any of the purposes listed in Paragraph 41(3)) under AFS.

39. AFS securities shall include *inter-alia* debt securities held for asset liability management (ALM) purposes that meet the SPPI criterion where the bank’s intent is flexible with respect to holding to maturity or selling before maturity.

FAQ5: Whether the SLR securities used for purposes such as liquidity or interest rate risk management can qualify for HTM category?

Ans: A bank would need to determine whether the objective with which it acquires a security would allow it to hold the security to maturity (HTM) or whether it would require flexibility to routinely sell those securities before maturity (AFS). Illustratively, if the objective with which a security is acquired is to manage everyday liquidity needs, the bank would need the flexibility to routinely sell those securities before maturity. In such cases, assuming the security meets the SPPI criteria, it should be classified under AFS rather than HTM.

D. Fair Value through Profit and Loss (FVTPL)

40. A bank shall classify securities under FVTPL category if such securities do not qualify for inclusion in HTM or AFS. These securities shall include *inter-alia*:
 - (1). Equity shares, other than (a) equity shares of associates or joint ventures and (b) equity shares where, at initial recognition, the irrevocable option to classify at AFS has been exercised.
 - (2). Investments in Mutual Funds, Alternative Investment Funds, Real Estate Investment Trusts, Infrastructure Investment Trusts, etc.
 - (3). Investment in securitisation notes which represent the equity tranche of a securitisation transaction. Investments in senior and other subordinate tranches shall need to be reviewed for their compliance with SPPI criterion explained in paragraph 37 above.
 - (4). Bonds, debentures, etc. where the payment is linked to the movement in a particular index such as an equity index rather than an interest rate benchmark.
 - (5). Securities referred to in paragraph 36, subject to the exception for equity referred to in paragraph 40(1) above.

D.1 Held For Trading (HFT)

41. A bank shall create a separate sub-category called HFT within FVTPL. The classification of investments under HFT shall be in compliance with the

requirements specified hereunder. All other instruments shall be excluded from HFT.

- (1). A bank shall only include those financial instruments in HFT when there is no legal impediment against selling or fully hedging it.
- (2). A bank shall fair value daily all HFT instruments and recognise any valuation change in the profit and loss account.
- (3). Any instrument that a bank holds for one or more of the following purposes shall, when it is first recognised on its books, be designated as a HFT instrument, unless specifically otherwise provided for in paragraph 41(1) or 39(6) of these Directions:
 - i. short-term resale;
 - ii. profiting from short-term price movements;
 - iii. locking in arbitrage profits; or
 - iv. hedging risks that arise from instruments meeting (i), (ii) or (iii) above.
- (4). The following instruments shall be included in HFT, unless specifically otherwise provided for in paragraph 41(1) or 41(6) of these Directions:
 - i. instruments in the correlation trading portfolio;
Explanation: Banks in India are not expected to hold correlation trading portfolios.
 - ii. instruments resulting from underwriting commitments, where underwriting commitments refer only to securities underwriting, and relate only to securities that are expected to be actually purchased by the bank on the settlement date.
Explanation: Please also refer to Reserve Bank of India (Payments Banks – Undertaking of Financial Services) Directions, 2025.
- (5). Any instrument which is not held for any of the purposes listed in paragraph 41(3) of these Directions at inception, nor seen as being held for these purposes according to paragraph 41(4) of these Directions, shall not be assigned to HFT.
- (6). The following instruments shall not be included in HFT category:
 - i. unlisted equities and equity investments in associates and joint ventures;

- ii. instruments designated for securitisation warehousing;
- iii. direct holding of real estate;
- iv. equity investments in a fund, unless the bank meets at least one of the following conditions:
 - a. the bank is able to look through the fund to its individual components and there is sufficient and frequent information, verified by an independent third party, provided to the bank regarding the fund's composition; or
 - b. the bank obtains daily price quotes for the fund and it has access to the information contained in the fund's mandate or in the national regulations governing such investment funds;
- v. Funds that have instrument types specified from (i) to (iv) above as underlying assets; or
- vi. instruments held for the purpose of hedging a particular risk of a position in the types of instruments specified from (i) to (v) above.

(7). The following instruments shall be presumed to be in HFT unless specifically otherwise provided for in paragraph 41(1) or 41(6) of these Directions:

Explanation: The presumptions for the designation of an instrument in HFT or outside HFT set out in this text will be used where a designation of an instrument in HFT or outside HFT is not otherwise specified in this text.

- i. instruments resulting from market-making activities;
- ii. equity investments in a fund excluding those exempted from assignment to HFT in accordance with paragraph 41(6)(iv) of these Directions; or
- iii. listed equities.

Explanation: Subject to supervisory review, bank shall have the option to exclude certain listed equities from HFT, for example legislated programmes and equity investment designated as AFS.

- iv. trading-related repo-style transaction; or

Explanation: Repo-style transactions that are (i) entered for liquidity management and (ii) valued at accrual for accounting purposes are not part of the presumptive list of paragraph 41(7) of these Directions.

- (8). A bank shall have the option to deviate from the presumptive list specified in paragraph 41(7) of these Directions according to the process set out below.
- i. If a bank believes that it needs to deviate from the presumptive list established in paragraph 41(7) of these Directions for an instrument, it shall submit a request to Department of Regulation, RBI and receive explicit approval. In its request, the bank shall provide evidence that the instrument is not held for any of the purposes in paragraph 41(3) of these Directions.
 - ii. In cases where this approval is not given, the instrument shall be designated as HFT. The bank shall document any deviations from the presumptive list in detail on an on-going basis.

Supervisory powers

- (9). Notwithstanding the process established in paragraph 41(8) of these Directions for instruments on the presumptive list, RBI may require the bank to provide evidence that an instrument in the HFT is held for at least one of the purposes specified in paragraph 41(3) of these Directions. If RBI is of the view that a bank has not provided enough evidence or if RBI believes the instrument customarily would not belong to HFT, it may require the bank to reclassify the instrument out of HFT, except if it is an instrument listed under paragraph 41(4) of these Directions.
- (10). RBI may require the bank to provide evidence that an instrument outside HFT is not held for any of the purposes of paragraph 41(3) of these Directions. If RBI is of the view that a bank has not provided enough evidence, or if RBI believes such instruments would customarily belong in the HFT, it may require the bank to assign the instrument to HFT.

Documentation of instrument designation

- (11). A bank shall have clearly defined policies, procedures and documented practices for determining which instruments to include in or to exclude from HFT, ensuring compliance with the criteria set forth in these Directions, and taking into account the bank's risk management capabilities and practices.

A bank's internal control functions shall conduct an ongoing evaluation of instruments both in and out of HFT to assess whether its instruments are being properly designated initially as HFT or outside HFT in the context of the bank's trading activities. Compliance with the policies and procedures shall be fully documented and subject to periodic (at least yearly) internal audit and the results shall be available for supervisory review.

E. Investments in Associates and Joint Ventures

42. All investments in associates and joint ventures shall be held *sui generis* i.e., in a distinct category for such investments separate from the other investment categories (viz. HTM, AFS and FVTPL).

FAQ 6: What are the general aspects that can be considered for SPPI criterion?

Ans: Certain general aspects with respect to the solely payment of principal and interest ('SPPI') criteria are as under:

- i. *Securities with contractual cash flows that meet 'SPPI criterion' are consistent with a 'basic lending arrangement'. In a basic lending arrangement, time value of money and credit risk are the most significant elements of the interest component. However, interest could also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time as well as a profit margin.*
- ii. *Contractual terms that introduce exposure to risk or volatility in contractual cash flows that is unrelated with a basic lending arrangement, such as exposure to change in equity price or commodity price, do not give rise to contractual cash flow that are consistent with the SPPI criterion.*
- iii. *In respect of foreign currency denominated securities, a bank shall assess whether contractual cash flows meet SPPI criterion for the*

currency in which the investment is denominated rather than making such determination after translating to Indian Rupee.

Securities that meet the SPPI criteria would inter-alia include debt instruments with a specified maturity/call date such as Government Securities (including non-interest-bearing recapitalisation bonds) and non-convertible Corporate Bonds, perpetual instruments (without contractual loss absorbency features such as discretionary coupons/ dividends and contingent write-off/ conversion to equity).

FAQ 7: In cases where the interest rates are regulated, would interest charged meet the criteria of time value of money for evaluating SPPI criterion?

Ans: Regulated interest rate shall be considered as a proxy for the time value of money element for the purpose of assessing SPPI criterion.

FAQ 8: As part of Basel III Capital Regulations in India, a bank is permitted to include Perpetual Non-Cumulative Preference Shares (PNCPS) and Perpetual Debt Instruments (PDI) issued by them subject to certain conditions as part of Additional Tier 1 (AT1) capital. These conditions inter-alia include loss absorption features that entail a write down/ conversion to equity at certain pre-specified triggers. In order to be eligible for inclusion in AT 1 these features have to be contractually included. Similarly, with respect to debt instruments qualifying for Tier 2 capital under Basel III, certain loss absorbency features such as Point of Non-Viability (PONV) trigger are required to be contractually included. The issue arises as to whether investments in such AT1 and Tier 2 instruments would be eligible for HTM or AFS classification?

Ans: The contractual cash flows would not meet SPPI criterion if the contractual terms of the securities permit or require the issuer (or another entity) to impose losses on the holder (for example, by writing down the par value or by converting the instrument into a fixed number of the issuer's

ordinary shares). They would not meet SPPI even if the probability is remote that such a loss will be imposed. Thus, Basel III compliant AT 1 and Tier 2 instruments would not meet SPPI criterion and cannot be classified under HTM or AFS.

FAQ 9: Whether inflation indexed bonds meet the SPPI criterion. The inflation indexed bonds have stated maturity date and payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged, and the principal is protected.

Ans: *Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects ‘real’ interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding. Therefore, the contractual cash flows could be considered to meet SPPI criterion.*

Explanation: Leverage is a contractual cash flow characteristic of some financial instruments. In the general sense a leveraged financial product allows an investor to take exposure higher than his investment into that product. In this specific context, it refers to a payment that is a multiple of the index. It may be noted that leveraged financial products including derivatives would not meet the SPPI criteria.

FAQ 10: Whether securities with step-up and step-down interest rate features meet SPPI criterion?

Ans: *Securities with step-up and step-down interest rate shall meet SPPI criterion where interest represents consideration only for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time, other basic lending risks and costs, as well as a profit margin. If interest rate changes based on certain event, a bank needs to assess the nature of any contingent event (i.e., the trigger) that would change the timing or amount of the contractual cash flows. For*

example, a security with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments is likely to meet SPPI criterion because of the relationship between missed payments and an increase in credit risk. On the other hand, a security with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level shall not meet SPPI criterion.

FAQ 11: Do subordinated securities meet SPPI criterion?

Ans: A security that is subordinated to other securities may have contractual cash flows that meet SPPI criterion if the debtor's non-payment is a breach of contract, and the holder has a contractual right to unpaid amounts of principal and interest on the principal amount outstanding even in the event of the debtor's bankruptcy, albeit after all the senior creditors are first paid-off. In general, subordinated bonds/debentures carry higher interest rates - such higher rates may generally be attributable to the additional credit risk borne by the holders. Therefore, such bonds may not necessarily fail the SPPI criteria.

FAQ 12: Whether a security that pays an inverse floating interest rate (i.e., the interest rate has an inverse relationship to market interest rates) meet SPPI criterion?

Ans: The contractual cash flows of such securities shall not meet SPPI criterion. The interest amounts are not consideration for the time value of money on the principal amount outstanding.

FAQ 13: A security is a perpetual instrument, but the issuer may call the instrument at any point and pay the holder the par amount plus accrued interest due. This security pays a market interest rate, but payment of interest cannot be made unless the issuer is able to remain solvent immediately afterwards. Deferred interest does not accrue additional interest. Would this security be considered as meeting the SPPI criterion?

Ans: The fact that security is perpetual does not in itself mean that the contractual cash flows do not meet SPPI criterion. In effect, a perpetual instrument has continuous (multiple) extension options. Such options may result in contractual cash flows that meet SPPI criterion if interest payments are mandatory and must be paid in perpetuity. Also, the fact that security is callable does not mean that the contractual cash flows do not meet SPPI criterion unless it is callable at an amount that does not substantially reflect payment of outstanding principal and interest on that principal amount outstanding. Even if the callable amount includes an amount that reasonably compensates the holder for the early termination of the instrument, the contractual cash flows could meet SPPI criterion.

In the given case, the contractual terms provide for deferment of interest wherein additional interest does not accrue. Consequently, interest amounts are not consideration for the time value of money on the principal amount outstanding. Therefore, contractual cash flows do not meet SPPI criterion.

FAQ 14: Will investment in units of investment funds (like mutual funds, AIFs, etc.) meet SPPI criterion?

Ans: Contractual cash flow in case of investment funds (like mutual fund) is mostly through redemption of units or dividends on such units. This may include fair value change of underlying assets in which the fund has invested. Therefore, the contractual cash flow from units of investment funds such as Mutual Funds, Alternative Investment Funds, etc. generally do not meet the SPPI criterion. No look through approach is envisaged in such cases.

FAQ 15: Whether investment in Security Receipts (SR) / Pass Through Certificates (PTCs)/ other securities issued by Asset Reconstruction Companies predicated on recovery from underlying securities meet SPPI criterion?

Ans: *The contractual cash flow in SR, PTC or other securities issued by ARCs predicated on recoveries from the underlying asset may not strictly represent payment of principal and interest on the principal amount outstanding. Therefore, such investments shall not meet the SPPI criterion.*

FAQ 16: A bank has invested in a financial asset with an embedded derivative. Should the asset be tested for SPPI criterion separately and the embedded derivative accounted for separately?

Ans: *Where a bank has invested in a hybrid financial asset with an embedded derivative, it should test the instrument in its entirety for SPPI criterion and classify accordingly rather than separating the embedded derivative from the instrument.*

FAQ 18: In the case of an investment in a securitisation tranche, how will a bank determine if the credit risk of the tranche is equal to or lower than the credit risk of the combined underlying pool of assets?

Ans: *In some cases, it might be possible to compare the credit rating allocated to the tranche as compared with that (or the average of those) for the underlying pool of financial instruments, if they are all rated. Also, for the more senior and junior tranches, it may be obvious, with relatively little analysis, whether the tranche is less or more risky than the underlying assets. However, in some circumstances involving complex securitisation structures, a detailed assessment may be required. Where such an assessment cannot be made easily, the investment in the tranche shall be treated as not meeting the SPPI criterion.*

Chapter V: Initial Recognition

43. A bank shall measure all investments at fair value on initial recognition. *Provided that*, unless facts and circumstances suggest that the fair value is materially different from the acquisition cost, it shall be presumed that the acquisition cost is the fair value. The presumption of acquisition cost as fair value shall be tested under following situations:
- (1). The transaction is between related parties (excluding transactions on NDS OM).
 - (2). The transaction is taking place under duress where one party is forced to accept the price in the transaction.
 - (3). The transaction is done outside the principal market for that class of securities.
 - (4). Other situations, where in the opinion of the supervisor, facts and circumstances warrant testing of the presumption.
44. In respect of government securities acquired through auction (including devolvement), switch operations and open market operations (OMO) conducted by the RBI, the price at which the security is allotted shall be the fair value for initial recognition purposes.
45. Where the securities are quoted or the fair value can be determined based on market observable inputs (such as yield curve, credit spread, etc.) any Day 1 gain/ loss shall be recognised in the Profit and Loss Account, under Schedule 14: 'Other Income' within the subhead 'Profit on revaluation of investments' or 'Loss on revaluation of investments', as the case may be.
46. Any Day 1 loss arising from Level 3 investments shall be recognised immediately.
47. Any Day 1 gains arising from Level 3 investments shall be deferred. In the case of debt instruments, the Day 1 gain shall be amortized on a straight-line basis up to the maturity date (or earliest call date for perpetual instruments), while for unquoted equity instruments, the gain shall be set aside as a liability until the security is listed or derecognised.

FAQ 19: What is the fair value of a security at initial recognition? Do we need to compare the transaction price with the end-of-day price?

Ans: The transaction price at initial recognition shall be presumed to be the fair value. Generally, this presumption need not even be tested especially in an arms' length transaction between unrelated parties in an active market. Where securities are acquired through an auction such as a corporate bond being acquired through bidding on an electronic bidding platform (EBP) on a recognised stock exchange and in compliance with extant SEBI regulations, the presumption that the bid price is the fair value generally holds. Accordingly, there is no need to compare market transactions with the end-of-day price in most situations. However, in certain situations such as transactions between related parties, coupons/yield not in consonance with prevailing market yields, etc. this presumption needs to be tested.

FAQ 20: How should the fair value of investments at initial recognition be determined?

Ans: In terms of paragraph 43 of the Directions, all investments shall be measured at fair value on initial recognition. Unless facts and circumstances suggest that the fair value of investments is materially different from its acquisition cost, it shall be presumed that at initial recognition, the acquisition cost is the fair value. In cases where this presumption does not hold, the fair value of investments at initial recognition shall be determined in terms of paragraphs 73 to 87 of the Directions.

FAQ 22: An equity share which is acquired in satisfaction of a debt is listed and actively traded on the National Stock Exchange (NSE) and BSE. How should it be recognised? What if the share is not listed?

Ans: As the transaction has taken place outside the principal market for the equity shares it should be recognised at its fair value. The fair value shall be determined in terms of paragraphs 73 to 87 of these Directions. Thus, where the share is listed its fair value shall be the quoted price on NSE/BSE. Where the share is unlisted, the fair value for the purpose of these Directions shall be the break-up value.

Chapter VI: Subsequent Measurement

A. HTM

48. A bank shall carry securities classified under HTM at cost and such securities shall not be marked to market (MTM) after initial recognition.
Provided that these securities shall be subject to income recognition, asset classification and provisioning norms as specified in paragraphs 95 to 104 of these Directions.
49. A bank shall amortise any discount or premium on securities classified under HTM over the remaining life of the instrument. The amortised amount shall be reflected in the financial statements under item II '*Income on Investments*' of Schedule 13: '*Interest Earned*' with a contra in Schedule 8:'*Investments*'.

B. AFS

50. A bank shall fair value securities classified under AFS at least on a quarterly basis, if not more frequently. Any discount or premium on the acquisition of debt securities under AFS shall be amortised over the remaining life of the instrument. The amortised amount shall be reflected in the financial statements under item II '*Income on Investments*' of Schedule 13: '*Interest Earned*' with a contra in Schedule 8:'*Investments*'.
51. A bank shall aggregate the valuation gains and losses across all performing investments held under AFS, irrespective of classification (e.g., Government securities, Other approved securities, Bonds and Debentures). The net appreciation or depreciation (adjusted for the effect of applicable taxes, if any) shall be directly credited or debited to a reserve named AFS-Reserve without routing through the Profit & Loss Account.
52. Securities under AFS shall be subject to income recognition, asset classification and provisioning norms as specified in paragraphs 95 to 104 of these Directions.
53. A bank shall reckon AFS-Reserve as part of Common Equity Tier 1 (CET 1) capital subject to paragraph 87 of these Directions. The unrealised gains transferred to AFS-Reserve shall not be available for any distribution such as dividend and coupon on Additional Tier 1 instruments.
54. Upon sale or maturity of a debt instrument in AFS category, the accumulated gain/ loss for that security in the AFS-Reserve shall be transferred from the AFS-

Reserve and recognized in the Profit and Loss Account under item II *Profit on sale of investments* under Schedule 14-*Other Income*.

55. In the case of equity instruments designated under AFS at the time of initial recognition, any gain or loss on sale of such investments shall not be transferred from AFS-Reserve to the Profit and Loss Account. Instead, such gain or loss shall be transferred from AFS-Reserve to the Capital Reserve.

C. FVTPL

56. A bank shall fair value securities classified under FVTPL and the net gain or loss arising from such valuation shall be directly credited or debited to the Profit and Loss Account. Securities that are classified under the HFT sub-category within FVTPL shall be fair valued on a daily basis, whereas other securities in FVTPL shall be fair valued at least on a quarterly, if not on a more frequent basis.
57. A bank shall amortise any discount or premium on the acquisition of debt securities under FVTPL over the remaining life of the instrument. The amortised amount shall be reflected in the financial statements under item II ‘Income on Investments’ of Schedule 13: ‘Interest Earned’ with a contra in Schedule 8:‘Investments’.

Explanation: Debt securities in this context means securities that meet the SPPI criterion.

58. Securities under FVTPL shall be subject to income recognition, asset classification and provisioning norms as specified in paragraphs 95 to 104 of these Directions.

D. Investments in Associates and Joint Ventures

59. A bank shall carry all investments (including debt and equity) in associates and joint ventures at acquisition cost, subject to the requirements of paragraphs 43 to 47 of these Directions.
60. A bank shall amortise any discount or premium on the acquisition of debt securities of associates and joint ventures over the remaining life of the instrument. The amortised amount shall be reflected in the financial statements under item II ‘Income on Investments’ of Schedule 13: ‘Interest Earned’.

Explanation: Debt securities in this context means securities that meet the SPPI criterion.

61. In case where there is already an investment in an entity which is not an associate or joint venture and subsequently the investee entity becomes an associate or joint venture, the revised carrying value as at the date of such investee entity becoming an associate or joint venture shall be determined as under:
- (1). Where the investment is held under HTM, the carrying value less any permanent impairment shall be the revised carrying value.
 - (2). Where an investment is held under AFS, the cumulative gains and losses previously recognised in AFS-Reserve shall be reversed and adjusted to the carrying value of the investment along with any permanent diminution in the value of the investment to arrive at the revised carrying value.
 - (3). Where an investment is held in FVTPL, the fair value as on the date of the investee becoming an associate or joint venture shall be taken as the carrying value.
62. When an investee ceases to be an associate or joint venture, the investments shall be reclassified to the respective category (HTM, AFS or FVTPL) as under:
- (1). Where the investment is reclassified into HTM, there shall be no change in the carrying value and consequently no accounting adjustment per se shall be required.
 - (2). Where the investment is reclassified into AFS or FVTPL, the fair value on the date of such reclassification shall be the revised carrying value. The difference between the revised and previous carrying value shall be transferred to AFS-Reserve and Profit and Loss Account in case of reclassification into AFS and FVTPL respectively.
63. Any gain/ profit arising on the reclassification/ sale of an investment in an associate or joint venture shall be first recognised in the Profit and Loss Account and then shall be appropriated below the line from the Profit and Loss Account to the 'Capital Reserve Account'. The amount so appropriated shall be net of taxes and the amount required to be transferred to Statutory Reserves.
64. A bank shall evaluate investments in associates or joint ventures for impairment at least on a quarterly, if not more frequent basis. Indicators of potential impairment shall include, but not limited to, the following:
- (1). Default by the investee in repayment of its debt obligations.
 - (2). Restructuring of the loans of the investee by any bank.

- (3). Downgrade of the credit rating of the investee to below investment grade.
 - (4). Continuous loss for three years by the investee and a consequent reduction of its net worth by 25 per cent or more.
 - (5). Significant decline in the fair value vis-à-vis the carrying value for a period of six months or more. For the purpose of this sub-paragraph the term significant shall be interpreted as at least 20 per cent. A bank, with the approval of its Board, may apply even more conservative threshold.
 - (6). Any or all of the investee's outstanding securities have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons.
 - (7). In the case of a new entity/ project where the originally projected date of achieving the breakeven point has been extended i.e., the entity/ project has not achieved break-even within the gestation period as originally envisaged.
65. Where a need for determination of impairment is required for an investment in an , associate or joint venture, the bank shall obtain a valuation of the investment by an independent registered valuer (In terms of section 247 of the Companies Act, 2013) and make provision for the impairment, if any. Such diminution shall be provided by recognising it as an expense in the Profit and Loss Account. It may be subsequently reversed through Profit and Loss Account, if there is a reversal of the diminution.

FAQ 23: What is the period over which the discount or premium should be amortised for securities with a call or put option?

Ans: *The discount/premium on securities, including on securities with the call/put option, shall be amortised over its residual contractual maturity. Further, the discount/premium on perpetual debt security shall be amortised up to the earliest call date.*

Chapter VII: Reclassifications between categories

66. A bank shall not reclassify investments between categories (viz. HTM, AFS and FVTPL) without the approval of its Board of Directors. In addition, such reclassification shall also require the prior approval of the Department of Supervision (DoS), RBI.

Explanation: Permission for reclassification will be given in rare circumstances, where the bank can demonstrate to the satisfaction of the supervisors that such reclassification is necessitated by a significant change in the way in which it proposes to manage a group of investments. For instance, a bank may decide to shut down a particular line of business and accordingly investments originally acquired with the intent to hold till maturity are now held for sale.

67. Any reclassification of investments between categories shall be applied prospectively from the reclassification date.
68. Where a bank reclassifies investments from one category to another category, it shall apply the accounting treatment as given in the table below. The bank shall disclose the details of such reclassification including the reclassification adjustments in the notes to the financial statements:

Sl. No.	From	To	Accounting Treatment
a	HTM	AFS	The fair value measured at the reclassification date shall be the revised carrying value. Any gain or loss arising from a difference between the revised carrying value and the previous carrying value shall be recognised in AFS-Reserve.
B		FVTPL	The fair value measured at the reclassification date shall be the revised carrying value. Any gain or loss arising from a difference between the revised carrying value and previous carrying value of the investments shall be recognised in the Profit and Loss Account under Item (III): ' <i>Profit on revaluation of investments</i> ' under Schedule 14: ' <i>Other Income</i> '.
c	AFS	HTM	The investments are reclassified at its fair value at the reclassification date. However, the cumulative gain/loss previously recognised in the AFS-Reserve shall be withdrawn therefrom and adjusted against the fair value of the investments at the

Sl. No.	From	To	Accounting Treatment
			reclassification date to arrive at the revised carrying value. Thus, the revised carrying value shall be the same as if the bank had classified the investment in HTM <i>ab initio</i> itself.
d		FVTPL	The investments shall continue to be measured at fair value. The cumulative gain or loss previously recognised in AFS-Reserve shall be withdrawn therefrom and recognised in the Profit and Loss Account, under Item (III): ' <i>Profit on revaluation of investments</i> ' under Schedule 14: ' <i>Other Income</i> '.
e	FVTPL	HTM	The carrying amount representing the fair value at the reclassification date remains unchanged.
f		AFS	

FAQ 24: When is the reclassification recorded in the books of the bank?

Ans: *If a bank is permitted to reclassify its investment portfolio, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest. The reclassification date shall be the first day of the first reporting period following the supervisory permission allowing reclassification of financial asset. For example, an entity with a reporting year-end of 31st March might get permission to reclassify its investment portfolio in August. If the bank prepares and publishes quarterly results, it should apply the old classification up to 30th September and, as of 1st October ('reclassification date'), reclassify all affected investment and apply the new classification prospectively from that date.*

Chapter VIII: Sale of investments from HTM

69. A bank shall undertake sales of investments from HTM as per a Board approved policy. The details of sales out of HTM shall be disclosed in the notes to accounts of the financial statements in the format specified in Annex I.
70. In any financial year, the carrying value of investments sold out of HTM shall not exceed five per cent of the opening carrying value of the HTM portfolio. Any sale beyond this threshold shall require prior approval from the Department of Supervision (DoS), RBI.
Explanation: In order to ensure that the base for comparison is similar, the book value of securities sold is to be considered rather than the sale consideration.
71. The following categories of sales of securities shall be excluded from the regulatory limit of five per cent prescribed in paragraph 70:
 - (1). Sales to the RBI under liquidity management operations of RBI such as the Open Market Operations (OMO) and Government Securities Acquisition Programme (GSAP).
 - (2). Repurchase of Government Securities by Government of India from bank under buyback or switch operations.
 - (3). Repurchase of State Government Securities by respective state governments under buyback or switch operations.
 - (4). Repurchase, buyback or exercise of call option of non-SLR securities by the issuer.
 - (5). Sale of non-SLR securities following a downgrade in credit ratings or default by the counterparty.
 - (6). .
 - (7). Additional sale of securities explicitly permitted by the Reserve Bank.
72. Any profit or loss on the sale of investments in HTM shall be recognised in the Profit and Loss Account under Item II of Schedule 14:'Other Income'. The profit on sale of an investments in HTM shall be appropriated below the line from the Profit and Loss Account to the 'Capital Reserve Account'. The amount so appropriated shall be net of taxes and the amount required to be transferred to Statutory Reserve.

FAQ 25: Will securities sold under repo from HTM category considered as sale from HTM?

Ans: In terms of Annex I to Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 repo transactions are accounted for as a collateralised lending and borrowing transaction with an agreement to repurchase, on the agreed terms. Therefore, repo of securities from HTM category, compliant with the said Directions, shall not be considered as sale from HTM.

Chapter IX: Fair Value of investments

73. A bank shall determine the fair value of investments for the purpose of initial recognition and subsequent periodical valuation as required by these Directions in accordance with the valuation norms provided in this Section:

A. Quoted Securities

74. A bank shall determine the fair value for the quoted securities based on the prices declared by the Financial Benchmarks India Private Ltd. (FBIL) in accordance with RBI circular FMRD.DIRD.7/14.03.025/2017-18 dated March 31, 2018, as amended from time to time. For securities whose prices are not published by FBIL, the fair value of the quoted security shall be based upon quoted price as available from the trades/ quotes on recognised stock exchanges, reporting platforms or trading platforms authorized by RBI/SEBI or prices declared by the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

B. Unquoted SLR Securities

75. Treasury Bills shall be valued at carrying cost.

76. Unquoted Central / State Government securities shall be valued on the basis of the prices/ YTM rates published by the FBIL.

77. Other approved securities shall be valued applying the YTM method by marking them up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by FBIL.

C. Unquoted Non-SLR Securities

78. Unquoted debentures and bonds

- (1). Unquoted debentures and bonds shall be valued by applying the appropriate mark-up over the YTM rates for Central Government Securities as put out by FBIL/FIMMDA, subject to the following:
 - i. The mark-up applied shall be determined based on the ratings assigned to the debentures/ bonds by the credit rating agencies and shall be subject to the following:
 - a. The mark-up shall be at least 50 basis points above the rate applicable to a Central Government security of equivalent maturity for rated debentures/ bonds.

- b. The mark-up for unrated debentures or bonds shall not be less than the mark-up applicable to rated debentures or bonds of equivalent maturity.

Provided that the mark-up for the unrated debentures or bonds should appropriately reflect the credit risk borne by the bank.

- c. Where the debentures/ bonds are quoted and there have been transactions within 15 days prior to the valuation date, the value adopted shall not be higher than the rate at which the transaction has been recorded on the Exchanges/trading platforms/reporting platforms authorized by RBI/ SEBI.

(2). Ujjwal DISCOM Assurance Yojana (UDAY) bonds and bonds issued by state distribution companies (DISCOMs) under financial restructuring plan shall be valued as under.

- i. UDAY bonds shall be valued on basis of prices/yields published by FBIL.
- ii. State government guaranteed bonds issued and serviced by DISCOM (i.e., when bonds' liabilities are with the DISCOMs) shall be valued by applying a mark-up of 75 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.
- iii. Other bonds issued and serviced by DISCOMs shall be valued by applying a mark-up of 100 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.
- iv. Bonds issued and serviced by the State Government (i.e., when bonds' liabilities are with the State Government) shall be valued by applying a mark-up of 50 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.

(3). Special securities, which are directly issued by Government of India, and which do not carry SLR status shall be valued at a spread of 25 basis points above the corresponding yield on Central Government securities of equivalent maturity.

Explanation: Special securities at present comprise Oil Bonds; Fertilizer Bonds; bonds issued to the State Bank of India (during the 2008 rights issue), Industrial Finance Corporation of India Ltd., and Food Corporation

of India, and securities issued by Central Government towards bank recapitalisation.

- (4). Zero coupon bonds (ZCBs): In the absence of market value, the ZCBs shall be marked to market with reference to the present value of the ZCB. The fair value so determined should be compared with the carrying cost to determine valuation gain or loss.

Explanation: The present value of the ZCBs may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero-coupon spreads put out by FIMMDA/FBIL.

79. Preference Shares

- (1). When a preference share has been traded on exchange within 15 days prior to the valuation date, the value shall not be higher than the price at which the share was traded.
- (2). The valuation of unquoted preference shares shall be done on YTM basis with appropriate mark-up over the YTM rates for Central Government Securities of equivalent maturity put out by the FBIL subject to such preference share not being valued above its redemption value. The mark-up shall be graded according to the ratings assigned to the preference shares by the rating agencies and shall be subject to the following:
- i. The mark-up cannot be negative i.e., the YTM rate shall not be lower than the coupon rate/ YTM for a Central Government India security of equivalent maturity.
 - ii. The rate used for the YTM for unrated preference shares shall not be less than the rate applicable to rated preference shares of equivalent maturity and shall appropriately reflect the credit risk borne by the bank.
 - iii. Where the investment in preference shares is made as part of a resolution, the mark-up shall not be lower than 1.5 percentage points.
- (3). Where preference dividends/coupons are in arrears, no credit should be taken for accrued dividends/coupons and the value determined as above on YTM basis should be discounted further by at least 15 per cent if arrears are for one year, 25 per cent if arrears are for two years, so on and so forth (i.e., with 10 percent increments). The overarching principle should be that

valuation shall be based on conservative assessment of cash flows with appropriate discount rates to reflect the risk. Statutory Auditors shall also specifically examine as to whether the valuations adequately reflect the risk associated with such instruments. The depreciation/provision requirement arrived at in respect of non-performing shares where dividends are in arrears shall not be allowed to be set-off against appreciation on other performing preference shares.

80. Equity Shares

Equity shares for which current quotations are not available i.e., which are classified as illiquid or which are not listed on a recognised exchange, the fair value for the purposes of these Directions shall be the break-up value (without considering 'revaluation reserves', if any) which is to be ascertained from the company's latest audited balance sheet. The date as on which the latest balance sheet is drawn up shall not precede the date of valuation by more than 18 months. In case the latest audited balance sheet is not available or is more than 18 months old, the shares shall be valued at ₹ 1 per company.

Explanation: Fair valuation based on break-up value shall be considered as Level 3.

81. Mutual Funds Units (MF Units)

- (1). Investment in un-quoted MF units shall be valued on the basis of the latest re-purchase price declared by the MF in respect of each scheme.
- (2). In case of funds with a lock-in period or any other Mutual Fund, where repurchase price/ market quote is not available, units shall be valued at Net Asset Value (NAV) of the scheme. If NAV is not available, these shall be valued at cost, till the end of the lock-in period.

82. Commercial Paper

Commercial paper shall be valued at the carrying cost.

83. In respect of investments in security receipts (SRs) and other instruments issued by an Asset Reconstruction Company (ARC), a bank shall comply with the requirements of Reserve Bank of India (Commercial Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

84. Investment in Alternative Investment Funds (AIFs)

- (1). Quoted equity shares, bonds, units of AIFs in the bank's portfolio shall be valued *mutatis mutandis* as per instructions given in these Directions for quoted securities.
 - (2). Unquoted instruments of AIFs shall be valued as under:
 - i. *Units:* The valuation shall be done at the NAV as disclosed by the AIF. Where an AIF fails to carry out and disclose the valuation of its investments by an independent valuer as per the frequency mandated by SEBI (Alternative Investment Fund) Regulations, 2012, the value of its units shall be treated as ₹1 for the purpose of these Directions. In case AIF is not registered under SEBI (Alternative Investment Fund) Regulations, 2012 and the latest disclosed valuation of its investments by an independent valuer precedes the date of valuation by more than 18 months, the value of its units shall be treated as ₹1 for the purpose of these Directions.
 - ii. *Other instruments:* The valuation of unquoted equity and other instruments issued by an AIF shall be as per the methodology specified for such instruments above.
85. Where principal and unpaid interest are converted into debt, preference or equity instruments, a bank shall follow the requirements of the Reserve Bank of India (Commercial Banks – Credit Risk Management) Directions, 2025.
86. To increase consistency and comparability in fair value measurements and related disclosures, the bank shall categorize its investment portfolio into three fair value hierarchies viz. Level 1, Level 2, and Level 3 as defined in paragraph 4 above. The details of the investment portfolio shall be disclosed in its notes to accounts of the financial statements as per templates specified in Annex I. These disclosure requirements shall become effective from the audited financial statements for the financial year ending March 31, 2026, onwards.

FAQ 26: Under which level of the fair value hierarchy would investments in units of a mutual fund be categorised?

Ans. *The regulatory intent behind requiring the disclosure of fair value hierarchy is to indicate the level of reliability of the fair value measurement. Therefore, where the investment is in an Exchange Traded Fund (ETF) which is actively traded on a recognised stock exchange, the fair valuation*

of such units based on unadjusted quoted prices of the ETF shall be categorised as Level 1. In the case of non-ETF open ended Mutual Funds, where redemptions and subscriptions are taking place at the disclosed Net Asset Value on a daily basis with sufficient volume to be considered an active market, the investment may be classified as Level 1.

FAQ 27: Under which level of the fair value hierarchy would investments in units of an Alternative Investment Fund (AIF) be categorised?

Ans. If the units of the AIF are not actively traded nor are there any subscriptions and redemptions at a daily published NAV, the valuation shall be classified as Level 3.

87. A bank shall not pay dividends out of net unrealised gains recognised in the Profit and Loss Account arising on fair valuation of Level 3 investments on its Balance Sheet. Further, such net unrealised gains on Level 3 investments recognised in the Profit and Loss Account or in the AFS-Reserve shall be deducted from CET 1 capital.

Provided that this paragraph shall not apply to investments that meet the SPPI criteria and are required to be risk weighted at 50 per cent or lower for credit risk as per applicable regulatory instructions on capital adequacy.

Chapter X: Operational Guidelines

A. Government Securities

88. A bank shall adhere to the following Directions with respect to operations in Government Securities:
- (1). Transactions through Subsidiary General Ledger (SGL) account: Transactions in Government Securities shall be undertaken through SGL or Constituent Subsidiary General Ledger (CSGL) accounts, under the Delivery Versus Payment (DvP) System, in accordance with the guidelines issued by RBI from time to time.
 - (2). Value Free Transfer (VFT) of Government Securities: Value free transfer in Government securities, shall be subject to the guidelines specified in Value Free Transfer (VFT) of Government Securities – Guidelines dated October 5, 2021, as amended from time to time.
 - (3). Separate Trading of Registered Interest and Principal Securities (STRIPS): Stripping / reconstitution of Government Securities shall be subject to the conditions laid down in guidelines IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010 and Stripping/Reconstitution in State Government Securities issued vide IDMD.RD.S390/10.18.060/2025-26 dated June 12, 2025, as amended from time to time provided that accounting and valuation of such transactions shall be done as under:
 - i. A bank can strip eligible Government Securities held under the AFS or FVTPL (including HFT) categories of its investment portfolio. STRIPS shall be valued and accounted for as zero-coupon bonds and in the manner prescribed in these Directions.
 - ii. The discount rates used for valuation of STRIPS at inception shall be market-based. However, in case traded zero-coupon rates are not available, the zero-coupon yields published by FBIL shall be used instead.
 - iii. On the day of stripping, the STRIPS shall be recognised in the books of account of the participant at their discounted value and at the same time, the Government Security in question shall be derecognised. The accounting treatment for reconstitution shall be exactly the opposite of stripping.

- iv. The stripping/reconstitution shall not result in any profit or loss. The present value of the STRIPS (coupon as well as principal) discounted using the Zero Coupon Yield Curve (ZCYC) shall be normalized using a factor that will be the ratio of the carrying value of the security or market value of the security (whichever is lower) to the sum total of the market value of all STRIPS created out of the security.
 - v. Normalisation shall also be applied in the case of reconstitution (even when STRIPS are acquired from the market).
 - vi. The book value of the STRIPS (ZCBs) shall be valued and marked to market as per these Directions. Accordingly, the book value of the STRIPS shall be marked up to the extent of accrued interest before MTM.
- (4). Repo in Government securities: Repo transactions (including reverse repo transactions) entered by the bank shall be subject to the guidelines specified in Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018.
- (5). Retailing of Government securities: A bank undertaking retailing of Government securities shall meet the following requirements:
- i. Retailing shall be on outright basis and there shall be no restriction on the period between sale and purchase.
 - ii. The retailing of Government Securities shall be on the basis of ongoing market rates/ yield curve emerging out of secondary market transactions.
 - iii. A bank shall adhere to guidelines issued by RBI on retailing of Government securities, from time to time.
89. Settlement of transactions in Government securities:
- (1). A bank shall settle the transactions in Government securities in accordance with the instructions issued vide Master Direction - Operational Guidelines for Primary Dealers dated July 1, 2016, as amended from time to time.
 - (2). All the transactions put through by a bank, either repo transaction or on outright basis, shall be reflected on the same day in its investment account and accounted for SLR purpose, where applicable.
 - (3). A bank shall follow 'Settlement Date' accounting for recording purchase and sale of transactions in Government Securities.

B. Non-SLR securities

90. A bank shall adhere to the following instructions while investing in non-SLR securities in the primary as well as the secondary market:

Explanation: Non-SLR securities means securities issued by corporates, bank, financial institutions and State and Central Government sponsored institutions, Special Purpose Vehicles (SPVs) etc., and shall also include capital gains bonds and bonds eligible for priority sector status.

- (1). A bank shall invest only in listed non-SLR debt securities of companies which comply with the requirements of SEBI, except to the extent permitted in paragraph 90(2) below.
- (2). A bank, investing in unlisted non-SLR securities, shall comply with the following requirements:
 - i. Before investing in an unlisted security, a bank shall ensure that the issuer complies with the disclosure requirements as prescribed by SEBI for similar listed securities.
 - ii. The carrying amount of a bank's investment in unlisted non-SLR securities shall not exceed 10 per cent of the carrying amount (i.e., value carried to the Balance Sheet) of its total investment in non-SLR securities as at the end (i.e., 31st March) of the previous financial year. A bank shall compute the denominator i.e., 'total non-SLR investments', by summing investments classified under the following four categories in Schedule 8 to the balance sheet, viz.,
 - a. Shares
 - b. Bonds and debentures
 - c. Subsidiaries/joint ventures; and
 - d. Others.
 - iii. Investment in unlisted securities that are proposed to be listed within one year shall be exempt from the ceiling of 10 per cent specified in paragraph 90(2)(ii) above. However, in case such security is not listed within the proposed timeframe the same shall be reckoned for the 10 per cent limit specified for unlisted non-SLR securities. In case such inclusion leads to a breach of 10 per cent ceiling, the bank shall not

- make any further investments in non-SLR securities (both primary and secondary market) till such time bank's investment in unlisted non-SLR securities comes within the limit of 10 per cent.
- iv. A bank is permitted to make investment in unlisted non-SLR securities of an additional 10 per cent over and above the limit of 10 per cent specified in paragraph 90(2)(ii) above, provided that such investment is in securitisation notes issued for infrastructure projects, and bonds/debentures issued by ARCs.
 - v. Investment in units of mutual fund schemes, AIFs, etc. having an exposure to unlisted securities of 10 per cent or more of the corpus of the fund, shall be treated as unlisted for the purpose of compliance with the ceiling of 10 per cent prescribed in paragraph 90(2)(ii) above.
Explanation: Exposure of the mutual fund to Treasury Bills, Tri-Party Repo, Repo/ Reverse Repo and Bank Fixed Deposits shall not be considered as unlisted while determining the exposure of the mutual fund to unlisted securities.
 - vi. Investment in the following securities shall not be reckoned as 'unlisted non-SLR securities' for computing compliance with the prudential limits prescribed in Chapter X of these Directions:
 - a. Securities issued directly by the Central and State Governments, which are not reckoned for SLR purposes and those directly issued by foreign sovereigns.
 - b. Equity shares
 - c. Units of equity oriented mutual fund schemes, viz. those schemes where any part of the corpus can be invested in equity.
 - d. Equity/debt instruments/Units issued by Category I and Category II AIFs.
 - e. Commercial Paper
 - f. Certificates of Deposit
 - g. Non-Convertible Debentures (NCDs) with original or initial maturity up to one year issued by corporates (including NBFCs).
 - h. Securities acquired by way of conversion of debt, subject to periodic reporting to the Reserve Bank in the DSB return on Asset Quality.

i. Security Receipts issued by ARCs registered with the Reserve Bank.

j. Asset Backed Securities (ABS) and Mortgage-Backed Securities (MBS), rated at or above the minimum investment grade.

Provided that there shall be close monitoring of exposures to ABS on a bank specific basis based on monthly reports submitted to the DoS, RBI under the Supervisory Reporting System.

k. Unlisted convertible debentures (Investments in these instruments shall be treated as “Capital Market Exposure”).

(3). A bank shall not invest in non-SLR securities of original maturity of less than one-year.

Provided that this restriction shall not apply to investments in Commercial Paper, Certificates of Deposits and NCDs with original or initial maturity up to one year issued by corporates (including NBFCs), in line with RBI guidelines.

(4). *Investment in Zero and Low Coupon Bonds:* A bank shall not invest in long-term Zero-Coupon Bonds (ZCBs) or Low Coupon Bonds issued by corporates (including those issued by NBFCs).

Provided that the above prohibition shall not apply in cases where the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments/ securities such as Government securities.

(5). *Investment in Unrated Bonds:* A bank shall not invest in unrated non-SLR securities.

Provided that the bank shall have the option to invest in unrated bonds of companies engaged in infrastructure activities, within the ceiling of 10 per cent for unlisted non-SLR securities as referred in paragraph 90(2)(ii) above.

Explanation: This provision is not applicable on investments in securities referred in paragraph 90(2)(vi) which are not required to be rated mandatorily as per the extant regulations.

(6). *Investment in liquid/ short term debt schemes:* The total investment by bank in liquid/short term debt schemes (by whatever name called) of mutual funds with weighted average maturity of portfolio of not more than one year,

shall be subject to a prudential cap of 10 per cent of its net worth as at the end of the previous financial year.

Explanation: The weighted average maturity shall be calculated as average of the remaining period of maturity of securities weighted by the sums invested.

- (7). *Repo in Corporate Bonds:* A bank shall undertake repo in corporate bonds as per guidelines given in Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018.
- (8). OTC Transactions in Certificates of Deposit (CDs), Commercial Papers (CPs) and Non-Convertible Debentures (original maturity up to one year): A bank shall invest in CDs, CPs and NCDs as per guidelines given in Reserve Bank of India (Certificate of Deposit) Directions, 2021 and Master Direction – Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year) Directions, 2024.
- (9). Investments in Long Term Bonds issued by a bank for financing of Infrastructure and Affordable Housing: A bank shall comply with the following conditions while making investment in the long-term bonds issued by other banks for financing of infrastructure and affordable housing:
 - i. The investment in a specific issue of such bonds shall be capped at lower of the two per cent of the investing bank's Tier 1 Capital or five per cent of the issue size.
 - ii. The aggregate holding in such bonds shall be capped at 10 per cent of investing bank's total non-SLR investments.
 - iii. Not more than 20 per cent of the primary issue size of such bond issuance shall be allotted to banks.
 - iv. A bank shall not hold its own bonds.
- (10). Trading and Settlement in Corporate Bonds and Securitisation Notes:
 - i. Trades in listed corporate bonds shall be executed as per guidelines issued by SEBI.
 - ii. All the secondary market Over-the-Counter (OTC) trades in corporate bonds and securitisation notes shall be reported within 15 minutes of the trade on any of the recognised stock exchanges.
 - iii. All OTC trades in corporate bonds and securitisation notes shall be cleared and settled through a SEBI recognised clearing corporation.

(11). Other requirements

- i. A bank shall undertake the due diligence in respect of investments in non-SLR securities.
- ii. A bank shall actively monitor the credit risks associated with its non-SLR investments under HTM category and take suitable risk mitigation measures. The Reserve Bank will also monitor risks associated with non-SLR securities under HTM category and take appropriate measures, if necessary.
- iii. A bank shall ensure that credit facilities for activities/purposes precluded by statute or regulations are not financed by way of funds raised through non-SLR securities.
- iv. Except for unrated securities permitted in Chapter II of these Directions, a bank shall invest only in the debt securities with a current and valid credit rating which is not less than investment grade.
- v. In case of private placement of debt, the investing bank shall file a copy of all offer documents with an RBI registered Credit Information Company (CIC). Investing bank shall ensure that any default relating to interest/ instalment in respect of any privately placed debt is reported to all RBI registered CICs along with a copy of the offer document.
- vi. A bank shall disclose the details of the issuer composition of non-SLR investments and the non-performing non-SLR investments in the 'Notes to Accounts' of the balance sheet, as per the Reserve Bank of India (Payments Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

(12). Role of Boards

- i. It shall be the responsibility of the Board to ensure proper risk management systems are in place for capturing and analysing the risks in respect of non-SLR investments.
- ii. The Board shall also review the following aspects of non-SLR investments at least on quarterly intervals:
 - a. Total business (investment and divestment) during the reporting period.

- b. Compliance with the prudential limits prescribed by the Board for non-SLR investments.
- c. Compliance with the prudential guidelines issued by the Reserve Bank on non-SLR investments.
- d. Rating migration of the issuers/ issues held in the bank's books and consequent diminution in the portfolio quality.
- e. Adequacy of the systems and procedures prescribed under bank's investment policy for investment in privately placed instruments; and
- f. Extent of non-performing investments in the non-SLR category.

C. Internal Control System

91. A bank shall establish a robust internal control mechanism in respect of investment transactions and shall, at a minimum, ensure the following:
- (1). There shall be a clear functional separation of (a) trading, (b) settlement, (c) monitoring and control, and (d) accounting.
 - (2). There shall be a functional separation of trading and back-office functions relating to bank's own Investment Accounts, Portfolio Management Scheme (PMS) Clients' Accounts and other Constituents (including brokers') accounts. The PMS rendered by the bank shall comply with Reserve Bank of India (Payments Banks – Undertaking of Financial Services) Directions, 2025.
 - (3). Deal slips shall be prepared for every transaction entered into. Deal slips shall be serially numbered, properly accounted for and shall contain all the details of the deal such as name of the counterparty, details of security, category (i.e. HTM, AFS, FVTPL or HFT) in which it shall be held, amount, price, contract date and time, confirmation mode to the counterparty, whether it is a direct deal or through a broker, and if through a broker, name of the broker, etc. Back -office shall monitor timely receipt of confirmation from the counterparty, except where the requirement is waived off in terms of circulars IDMD.No.766/10.26.65A/2005-06 dated August 22, 2005 and FMRD.FMID.01/14.01.02/2014-15 dated December 19, 2014.

- (4). A bank shall put in place suitable internal controls such as periodic reconciliation of the investment book at least on a quarterly basis, procedure for recording, verification and passing vouchers, contract verification, valuation of portfolios, monitoring of prudential limits and risk limits and monitoring of cancelled deals. Processes and controls for compliance with legal and regulatory requirements of reporting deals on various platforms shall be put in place.
- (5). A bank shall adhere to the FIMMDA code of conduct while executing trades in Government securities on NDS-OM and in the OTC market.
- (6). Transactions in Government securities, money market instruments (call/notice/term money, CPs, CDs, repo in corporate bonds and Government securities, NCDs of original maturity less than one year etc.), derivatives and other instruments shall be undertaken as per instructions issued by the RBI.
- (7). Balances of Government securities as per bank's books shall be reconciled at least at monthly intervals with the balances in the books of the Public Debt Office (PDO). If the number of transactions so warrant, the reconciliation should be undertaken more frequently. This reconciliation shall be periodically checked by the internal audit department of the bank.
- (8). A bank shall clearly demonstrate that transaction entered by them on behalf of PMS Clients' Accounts (including brokers) does not belong to its own Investment Account and the bank is acting only in its fiduciary/ agency capacity.
- (9). A bank shall ensure that a stockbroker, serving as director on the bank's Board or in any other capacity, is not involved in any manner with the Investment Committee or in the decisions about making investments in shares / similar instruments or advances against shares.
- (10). A system shall be put in place for reporting transactions to top management, on a weekly basis which shall include the details of transactions in securities, details of SGL bouncing, and a review of investment transactions undertaken during the period.
- (11). A bank's management shall ensure that adequate internal control and audit procedures are in place for proper compliance of instructions in regard to investment portfolio. A bank shall institute regular system of monitoring

compliance with the prudential and other guidelines issued by the Reserve Bank. A bank shall get compliance in key areas certified by its statutory auditors and furnish such audit certificate to DoS, RBI.

D. Engagement of brokers

92. The engagement of the services of the brokers shall be on the terms and conditions specified hereunder:

- (1). A bank engaging services of brokers shall ensure that the role of the broker shall be restricted to that of bringing the two parties to the deal together.

Explanation: The broker is not obliged to disclose the identity of the counterparty before the conclusion of the deal. However, the same shall be disclosed after it is decided to enter into the transaction to facilitate direct settlement between counterparties.

- (2). The brokerage on the deal payable to the broker, if any (if the deal was put through with the help of a broker), shall be clearly indicated on the notes/memorandum put up to the top management seeking approval for putting through the transaction.

- (3). A bank shall also ensure that the broker note contains the exact time of the deal and the name of the counterparty. A bank's back-office shall ensure that the deal time on the broker note and the deal ticket is the same. A bank shall also ensure that concurrent auditors audit this aspect.

- (4). The brokers shall not have any role in the process of settlement of deals. The settlement of the deal shall take directly between the counterparties viz., both fund settlement and delivery of security.

- (5). A bank shall not transact in Government securities in physical form with any broker.

- (6). A bank shall not engage the services of any broker in inter-bank transactions.

Provided that the above prohibition shall not apply to a bank undertaking inter-bank securities transactions through members of a recognised stock exchange.

- (7). A bank shall, subject to approval of its top management, prepare a panel of approved brokers which shall be reviewed annually or more often if so warranted. The criteria for empanelment of brokers shall include, at the

minimum, prior experience, creditworthiness, market reputation and details of regulatory action, if any. A record of broker-wise details of deals put through and brokerage paid, shall be maintained.

(8). Prudential Limits

A limit (covering both the business initiated by a bank with a broker and the business offered/brought to the bank by a broker) of five per cent of total transactions through brokers (both purchase and sales) entered into by a bank during a financial year under review shall be treated as the aggregate upper contract limit for each of the approved brokers.

Provided that the limit shall be observed with reference to the year under review and the bank shall keep in view the expected turnover of the current year which shall be based on turnover of the previous year and anticipated rise or fall in the volume of business in the current year.

Provided that direct deals with the brokers as purchasers or sellers and transactions conducted with brokers on behalf of the clients shall be included in the total transactions of the year to arrive at the limit of transactions to be done through an individual broker and shall exclude transactions entered into directly with counterparties i.e., where brokers are not involved, to arrive at total transactions.

Provided further that if for any reason it becomes necessary to exceed the aggregate limit for any broker, the bank shall record in writing the specific reasons for such breach and the Board shall be informed, post-facto.

Provided further that the business put through any individual broker or brokers in excess of the limit, with the reasons for the same, shall be covered in the half-yearly review to the Board /Local Advisory Board.

Provided further that the limit of five per cent shall not apply to dealings through Primary Dealers.

E. Audit, review and reporting

93. A bank shall ensure that there are adequate internal control and audit procedures in place in regard to the conduct of the investment portfolio. A bank shall adhere to the following instructions in regard to audit, review and reporting of investment transactions:

- (1). A half-yearly review (as of March 31 and September 30) of the investment portfolio shall be undertaken by the bank which shall be placed before its Board within two months, i.e., by end-May and end-November. The review shall cover, at the minimum, operational aspects of investment portfolio, amendments made to the Investment Policy, major irregularities observed in all audit reports, position of compliance thereto and certify adherence to laid down internal Investment Policy and procedures and the Reserve Bank guidelines.
- (2). A copy of the half yearly review reports put up to the Bank's Board for March 31 and September 30 shall be forwarded to the DoS, RBI by June 15th and December 15th respectively.
- (3). Treasury transactions shall be separately subjected to concurrent audit in terms of instructions on "Concurrent Audit System" issued vide DBS.CO.ARS.No.BC.01/08.91.021/2019-20 dated September 18, 2019 and the results of the audit shall be placed before the Chief Executive of the bank once every month.
- (4). The business done through brokers shall be audited by the same concurrent auditors who audit the treasury operations of the bank, and the audit report shall be included in their monthly report to the Chief Executive of the bank.
- (5). The internal audit shall cover the transactions in securities on an ongoing basis, monitor compliance with the laid down management policies/prescribed procedures and report deficiencies directly to the management.
- (6). The Audit Committee of the Board (ACB) shall review in every meeting the total fund-based capital market exposure of bank, ensure that the guidelines issued by the Reserve Bank are complied with and adequate risk management and internal control systems are in place. With respect to investment in shares, the surveillance and monitoring shall be done by the ACB.
- (7). The ACB shall keep the Board informed about the overall exposure to capital market, the compliance with the Reserve Bank and Board guidelines, adequacy of risk management and internal control systems.

- (8). A bank shall institute a regular system of monitoring compliance with the prudential and other guidelines issued by the Reserve Bank. A bank shall get compliance in key areas certified by its statutory auditors and furnish such audit certificate to DoS, RBI.
94. Reconciliation of holdings of Government Securities – Audit Certificate.
- (1). A bank shall furnish a 'Statement of the Reconciliation of Investments (held in own Investment account, as also under PMS), as at the end of every accounting year duly certified by the bank's auditors. The statement shall be submitted to DoS, RBI, within one month from the close of the financial year.
 - (2). A bank in the letters of appointment issued to its external auditors, shall suitably include the aforementioned requirement of reconciliation.
 - (3). The format for the statement and the instructions for compiling the same are given in Annex II.

Chapter XI: Income Recognition, Asset Classification and Provisioning

A. Income recognition

95. A bank shall recognize income on accrual basis for the following investments:
 - (1). Government Securities, bonds and debentures of corporate bodies, where interest rates on these securities are predetermined and provided interest is serviced regularly and is not in arrears.
 - (2). Shares of corporate bodies provided dividend has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.
96. Income from units of mutual funds, alternative investment funds and other such pooled/ collective investment funds shall be recognized on cash basis.
97. Subject to paragraph 95 above, dividend income on equity investments held under AFS shall be recognised in the Profit and Loss Account.

B. Accounting for Broken Period Interest

98. A bank shall not capitalize the broken period interest paid to the seller as part of cost and shall treat it as an item of expenditure under Profit & Loss Account in respect of investments in securities.

Explanation: This accounting treatment does not consider the tax implications and bank shall comply with the requirements of Income Tax Authorities as prescribed.

C. Non-Performing Investments (NPI)

99. The criterion used to classify an asset as Non-Performing Asset (NPA) as per the Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 pertaining to Advances shall be used to classify an investment as a Non-Performing Investment (NPI). Similarly, an NPI shall only be upgraded to standard when it meets the criteria specified in the IRACP norms.
 - (1). In respect of debt instruments such as bonds or debentures, an NPI is one where interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.

- (2). Paragraph 99(1) above shall apply, mutatis mutandis to preference shares where the fixed dividend is not paid. If the dividend on preference shares (cumulative or non-cumulative) is not declared / paid in any year it shall be treated as due / unpaid in arrears and the date of balance sheet of the issuer for that particular year shall be reckoned as due date for the purpose of asset classification. Such an investment can be upgraded subsequently on payment of dividend for the current period in the case of non-cumulative preference shares and payment of dividend in arrears and for current period in the case of cumulative preferences shares.
 - (3). In the case of equity shares, in the event the investment in the shares of any company is valued at ₹1 per company on account of the non-availability of the latest balance sheet in accordance with paragraph 80 of these Directions, those equity shares shall be reckoned as NPI. The NPI can be upgraded subsequently on receipt of audited balance sheet.
 - (4). If any preference shares of an issuer become NPI in the books of the banks, the investment in any of the other performing securities issued by the same issuer need not be classified as NPI.
 - (5). In case of conversion of principal and / or interest into equity, debentures, bonds, etc., such instruments shall be categorised in HTM, AFS or FVTPL (including HFT) at the time of initial recognition, as per the requirements of paragraphs 43 to 47 of these Directions above..
100. Once an investment is classified as an NPI, it should be segregated from rest of the portfolio and not considered for netting valuation gains and losses.

FAQ 28: Paragraph 99(5) of the Directions prescribe that in case of conversion of principal and/or interest into equity shares, debentures, bonds, etc., such instruments shall be classified in the same asset classification category as the loan and provision shall be made as per the norms. Further, if post conversion, the classification is standard or subsequently upgraded to standard as per the IRACP norms, the investment shall be categorised in HTM, AFS or FVTPL (including HFT) as per the requirements of paragraphs 33 to 42 of these

directions. Does this imply that the bank shall be allowed to classify these securities under HTM, AFS, or FVTPL (including HFT) only upon upgradation and not at initial recognition? Also, clarity is required on what is meant by the segregation of such NPI investments from the rest of the portfolio?

Ans:

- a. *In partial modification to the Paragraph 99(5), it is clarified that the equity shares, debentures, bonds, etc., received upon conversion of principal and/or interest shall, be classified under HTM, AFS, or FVTPL (including HFT) only at initial recognition (i.e., when the loan is derecognised and the bond/equity, etc. is recognised), as per Section C of Chapter II of the Directions. A bank may, however, note that the asset classification of such instruments shall be the same as the loan and provisions made accordingly as stated in paragraph 99(5).*
- b. *The paragraph 100 of the Directions prescribes that once an investment becomes NPI, it should be segregated from rest of the portfolio and not considered for netting valuation gains and losses. It is clarified that the ‘segregation from the rest of the portfolio’ in this context means that such investments shall be segregated from other investments within the same category [i.e., HTM, AFS, or FVTPL (including HFT)] under which it was classified at initial recognition. Reclassification of the securities shall be guided by provisions of paragraphs 66 to 68 of these Directions.*

101. A bank shall not accrue any income on NPIs. Income shall be recognised only on realisation of the same. Further, any MTM appreciation in the security shall be ignored.
102. Irrespective of the category (i.e., HTM, AFS or FVTPL (including HFT)) in which the investment has been placed, the expense for the provision for impairment shall always be recognised in the Profit and Loss Account. The provision to be held on an NPI shall be the higher of the following amounts:

- (1). The amount of provision required as per IRACP norms computed on the carrying value of the investment immediately before it was classified as NPI; and
- (2). The depreciation on the investment with reference to its carrying value on the date of classification as NPI.

In view of the above, no additional provision for depreciation shall be required over and above the provision for NPI as specified above.

Provided that in the case of an investment categorised under AFS against which there are cumulative gains in AFS-Reserve, the provision required may be created by charging the same to AFS-Reserve to the extent of such available gains.

Provided further that in the case of an investment categorised under AFS against which there are cumulative losses in AFS-Reserve, the cumulative losses shall be transferred from AFS-Reserve to the Profit and Loss Account.

103. Upon an account being upgraded as per IRACP norms, any provision previously recognised shall be reversed and symmetric recognition of MTM gains and losses can resume.

104. Investments in Government securities and Government guaranteed investment.

- (1). A bank shall not classify its investment in Central Government Securities and State Government Securities as NPI.
- (2). A bank shall not classify investments in Central Government guaranteed securities as NPI unless the Central Government has repudiated the guarantee when invoked. In respect of such securities held in AFS and FVTPL, a bank shall continue to recognise MTM gains/losses in AFS-Reserve and Profit and Loss respectively. However, any income shall be recognised only on realisation basis.
- (3). A bank shall classify its investment in State Government guaranteed securities as NPI, and apply prudential norms for identification of NPI and provisioning, if interest/ instalment of principal (including maturity proceeds) or any other amount due to the bank remains unpaid for more than 90 days.

D. Investment Fluctuation Reserve

105. A bank shall create an Investment Fluctuation Reserve (IFR) until the balance in IFR is at least two per cent of the AFS and FVTPL (including HFT) portfolio, on a continuing basis, by transferring to the IFR an amount not less than the lower of the following:

- (1). Net profit on sale of investments during the year.
- (2). Net profit for the year, less mandatory appropriations.

106. The balance in IFR shall be eligible for inclusion in Tier 2 capital.

Provided that the cap applicable on recognition of General Provisions and Loss Reserves as Tier 2 capital shall not be applicable to the IFR.

107. A bank shall be permitted to draw down the balance available in IFR in excess of two percent of its AFS and FVTPL (including HFT) portfolio for credit to the balance of profit/loss as disclosed in the profit and loss account at the end of any accounting year.

108. Where the balance in the IFR is less than two percent of the AFS and FVTPL (including HFT) investment portfolio, a draw down shall be permitted subject to the following conditions:

- (1). The drawn down amount shall be used only for meeting the minimum CET 1/Tier 1 capital requirements by way of appropriation to free reserves or reducing the balance of loss.
- (2). The amount drawn down shall not be more than the extent the MTM provisions/losses during the aforesaid year exceed the net profit on sale of investments during that year.

Chapter XII: Derivatives

109. A bank shall comply with the requirements of the Guidance Note on Accounting for Derivative Contracts (revised 2021) issued by the Institute of Chartered Accountants of India except for paragraph 63 of the said Guidance Note. A bank shall present its derivative asset and liabilities as separate line items under Schedule 11:'Other Assets' and Schedule 5:'Other Liabilities' respectively. A bank may make adjustments to the carrying value of its investments in compliance with the hedge accounting requirements of the said Guidance Note.

Explanation: Paragraph 63 of the ICAI's Guidance note provides that "Derivative assets and liabilities recognized on the balance sheet at fair value should be presented as current and non-current..." based on the certain considerations. However, the balance sheets of bank prepared as per the Third Schedule to the BR Act do not provide for any distinction between current and non-current.

110. A bank shall categorize its derivatives portfolio into three fair value hierarchies viz. Level 1, Level 2, and Level 3 as defined in paragraph 4 above and disclose the same in the notes to accounts of its financial statements as per template specified in Annex I.

111. A bank shall not pay dividends out of net unrealised gains recognised in the Profit and Loss Account arising on fair valuation of Level 3 derivatives assets and liabilities on its Balance Sheet. Further, such net unrealised gains on Level 3 derivatives recognised in the Profit and Loss Account shall be deducted from CET 1 capital.

Chapter XIII: Repeal and Other Provisions

A. Repeal and Saving

112. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Classification, Valuation and Operation of Investment Portfolio as applicable to Payments Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
113. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

114. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or Directions, for the time being in force.

C. Interpretations

115. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

Annex I: Disclosures

(Refer Paragraph 69, 86 and 110)

Disclosure templates

1. Disclosure of carrying value of investments and fair value

(all amounts in ₹ crore)

	Current Year								Previous Year							
	HTM		AFS	FVTPL		Associates & JVs		HTM		AFS	FVTPL		Associates & JVs			
	At cost	Fair Value		HFT	non-HFT	At cost	Fair Value	At cost	Fair Value		HFT	non-HFT	At cost	Fair Value		
I. Investments in India																
(i) Government securities																
(ii) Other approved securities																
(iii) Shares																
(iv) Debentures and Bonds																
(v) Associates and joint ventures																
(vi) Others																
Total																
Less: Provisions for impairment / NPI																
Net																
II. Investments outside India																
(i) Government securities (including local authorities)																
(i) , Associates and joint ventures																
(ii) Other investments																
Total																
Less: Provisions for impairment/ NPI																
Net																
Total investments (I+II)																

2. Fair Value Hierarchy of investment portfolio measured at fair value on balance sheet

(all amounts in ₹ crore)

	Current Year								Previous Year							
	AFS				FVTPL				AFS				FVTPL			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
I. Investments in India																
(i) Government securities																
(ii) Other approved securities																
(iii) Shares																
(iv) Debentures and Bonds																
(v) Associates and joint ventures																
(vi) Others																
Total																
II. Investments outside India																
(i) Government securities (including local authorities)																
(i) Associates and joint ventures																
(iii) Other investments																
Total																
Total investments (I+II)																

3. Net gains/ (losses) on Level 3¹ financial instruments recognised in AFS-Reserve and Profit and Loss Account

	Current Year	Previous Year
Recognised in AFS-Reserve		
Recognised in Profit and Loss Account		

¹ Excludes Level 3 assets where the valuation of the asset is the price declared by FBIL/ FIMMDA for that asset.

4. Details of sales made out of HTM

(all amounts in ₹ crore)

		Current Year	Previous Year
A	Opening carrying value of securities in HTM		
B	Carrying value of all HTM securities sold during the year		
C	Less: Carrying values of securities sold under situations exempted from regulatory limit		
D	Carrying value of securities sold (D=B-C)		
E	Securities sold as a percentage of opening carrying value of securities in HTM (E=D÷A)		
	Amount transferred to Capital Reserve in respect of HTM securities which were sold at a gain		

5. Details of derivative portfolio

(all amounts in ₹ crore)

	Current year			Previous Year		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Exchange Rate Derivatives						
MTM – Assets						
MTM – Liabilities						
Net Gain/ Loss recognised in Profit &Loss Account						
Other Derivatives (specify)						
MTM – Assets						
MTM – Liabilities						
Net Gain/ Loss recognised in Profit &Loss Account						

Annex II: Reconciliation Statement

(Refer Paragraph 94(3))

Statement of the Reconciliation of Bank's Investments

Proforma Statement showing the position of Reconciliation of Investment Account as at 31st March.

Name of the bank:

Face value (₹ in crore)

Particulars of securities	General Ledger Balance	SGL Balance	
		As per PDO Books	As per bank's/institution's books
1	2	3	4
Central Govt			
State Govt			
Other approved securities			
Public Sector Bonds			
Units of Mutual Funds			
Others (Shares & Debenture etc.)			
TOTAL			

Signature of the Authorised
Official with the Name and
Designation

Note:

1. Where client/constituent accounts are permitted, a bank shall furnish similar statements shall be furnished in respect of PMS client's Accounts and other constituents' Accounts (including Brokers). In the case of PMS/other constituents' accounts, the face value and book value of securities appearing in the relevant registers of the bank shall be mentioned under Column 2.
2. Details of securities held on physical form (SGL Forms, scrips, letter of allotment, subscription receipt etc.), if any, may be provided in the footnote.

General instructions for compiling reconciliation statement

a) Column - 2 (GL balances)

It is not necessary to give complete details of securities in the format. Only aggregate amount of face value against each category may be mentioned. The corresponding book value of securities may be indicated in bracket under the amount of face value of securities under each category.

b) Column - 3 and 4 (SGL balances)

In the normal course balances indicated against columns three and four shall agree with each other. In case of any difference on account of any transaction not being recorded either in PDO or in the books of the bank this shall be explained giving full details of each transaction.

Annex III: Guidance on Journal Entries

Guidance on journal entries

Note: The guidance on journal entries is prepared for illustrative purposes only to aid a bank in its understanding of the Directions. A bank may modify them suitably for its accounting systems while ensuring compliance with the Directions. For simplicity, while preparing illustrations, straight line amortisation of discount has been assumed and the effect of taxation or standard asset provisioning has been ignored.

Day 1 Loss in HTM and amortisation of discount

Q.No.1: A bank has acquired a debt security with the objective to hold till maturity (HTM). The security meets the SPPI criteria with following particulars:

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 95, Fair Value at time of acquisition: ₹ 75

How is the discount on a debt security determined? How will the discount be amortised over the remaining tenor?

(Refer Paragraphs 45 and 49 of Directions)

Ans: At initial recognition, there is a Day 1 loss of ₹ 20 which needs to be recognised immediately. Consequently, the value at which the security is recognised is ₹ 75. The accounting entries on the date of acquisition would be as under:

	Particulars	Debit (₹)	Credit (₹)
At initial recognition	Investment Dr.	75	
	Day 1 Loss (P&L) Dr.	20	
	To Cash/ Bank		95
	(Being acquisition of security of face value ₹100 and fair value ₹75 for ₹95.)		

The discount (i.e., difference between Face Value and amount initially recognised in the books) is ₹ 25. This can be amortised over the remaining maturity on a straight line or constant yield method depending upon the systems and policy of the bank. Assuming the bank has been following a straight-line method, the annual accrual works out to ₹5 (i.e., ₹25 ÷ 5 years) per year.

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
Subsequently every year ² till maturity	Investment Dr.	5	
	Cash/ Bank Dr.	5	
	To Interest earned (P&L)		10
	(Being receipt of coupon and accrual of discount)		

² A bank can also pass entries for accrued interest (i.e., accrued coupon and discount) on reporting date.

Carrying value and amortisation of discount under AFS

Q.No.2: A bank has acquired a debt security on 1-April-X1 having following particulars and meeting SPPI criterion.

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 90 Fair Value at time of acquisition: ₹ 90
- Fair value as at 31-Mar-X2 = ₹ 88
- Fair value as at 31-Mar-X3 = ₹ 96
- Fair value as at 31-Mar-X4 = ₹ 98 and security is sold on 31-Mar-X4 at fair value of ₹ 98.

The security is held under AFS.

(Refer Paragraph 50 and 51 of Directions)

Ans:

The accounting entries on the date of acquisition would be as under:

	Particulars	Debit (₹)	Credit (₹)
1-April-X1	Investment Dr. To Cash/ Bank (Being acquisition of security of face value ₹100 and fair value for ₹90)	90	90

At each reporting date, assuming straight line amortisation, movement of carrying value of the debt security would be as under:

Reporting Date	Opening Carrying value of investment	Interest income (Coupon + Amortisation of discount)	Cash inflow (Coupon Receipt)	Carrying value of investment	Fair value of investment at reporting date	Gain/loss recognised in AFS-Reserve	Closing Carrying value of investment	Accumulated gain/loss in AFS-Reserve
(a)	(b)	(c)	(d)	(e) = (b)+(c)-(d)	(f)	(h) = (f) - (e)	(i) = (e) + (h)	(j)
31-Mar-X2	90	7 ³	5 ⁴	92	88	-4	88	-4
31-Mar-X3	88	7	5	90	96	6	96	2 ⁵
31-Mar-X4	96	7	103 ⁶	-	-	-	-	-7

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X2	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on the investment) AFS-Reserve Dr To Investment (Being fair value loss on investment) recognised in AFS-Reserve	5 2 4	7 4

³ Includes ₹ 2 amortisation of discount and ₹ 5 coupon

⁴ Receipt of coupon on debt security i.e., 5% of ₹ 100 = ₹ 5

⁵ Accumulated gain/loss in AFS-Reserve = Accumulated gain/loss in AFS-Reserve in previous year + Gain/loss recognised in AFS-Reserve in current year

⁶ Includes cash inflow on sale of investment of ₹ 98 and coupon of ₹ 5

⁷ Accumulated gain/loss in AFS-Reserve is recycled to profit and loss account on sale of debt security

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X3	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on the investment)	5 2	7
	Investment Dr To AFS-Reserve (Being fair value gain on investment) recognised in AFS-Reserve	6	6
31-Mar-X4	Investment Dr. Interest accrued Dr. To Interest earned (P&L) (Being accrual of coupon and discount on the investment)	2 5	7
	Cash/ Bank Dr. AFS-Reserve Dr. To Investment To Interest accrued To Profit on sale of investment (P&L) (Being receipt of coupon and sale proceeds, accrual of discount and recycling of gains accumulated in AFS-Reserve to P&L A/C)	103 2	98 5 2

Carrying value under FVTPL

Q.No.3: A bank has acquired a debt security on 1-April-X1 having following particulars for trading.

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 90, Fair Value at time of acquisition: ₹ 90
- Fair value as at 31-Mar-X2 = ₹ 95
- Fair value as at 31-Mar-X3 = ₹ 92

(Refer Paragraph 56 to 58 of Directions)

Ans:

The accounting entries on the date of acquisition would be as under:

	Particulars	Debit (₹)	Credit (₹)
1-April-X1	Investment Dr. To Cash/ Bank (Being acquisition of security of face value ₹100 and fair value for ₹90)	90	90

As the debt security is acquired for trading, it shall be classified under HFT. The movement in carrying value of security would be as under:

Reporting Date	Opening Carrying value of investment	Interest income (Coupon + Amortisation of discount)	Cash inflow (Coupon Receipt)	Carrying value of investment	Fair value of investment at reporting date	Fair value gain/loss recognised in P&L A/C	Closing Carrying value of investment
(a)	(b)	(c)	(d)	(e) = (b)+(c)-(d)	(f)	(h) = (f) - (e)	(i) = (e)+(h)
31-Mar-X2	90	7	5	92	95	3	95
31-Mar-X3	95	7	5	97	92	-5	92

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X2	Investment Dr. Cash/ Bank Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on the investment)	2 5	7
	Investment Dr To Profit on revaluation of investments (P&L) (Being fair valuation on security)	3	3
30-Sep-X1	Investment Dr. Cash/ Bank Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on the investment)	2 5	7
	Loss on revaluation of investment (P&L) Dr. To Investment (Being fair valuation of Security)	5	5

Non-Performing Investment (NPI) under HTM

Q.No.4: A bank has acquired a debt security on April 1, 20X1 having following particulars.

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 90, Fair Value at time of acquisition: ₹ 90
- Fair value as at 31-Mar-X2 = ₹ 94
- Fair value as at 31-Mar-X3 = ₹ 75 and debt security is classified as substandard asset requiring provision of 15 per cent as per IRACP norms.
- Fair value as at 31-Mar-X4 = ₹ 72 and debt security is classified as doubtful asset requiring provision of 25 per cent as per IRACP norms.

The security is held under HTM.

(Refer Paragraph 49, 101 and 102 of Directions)

Ans: The accounting entries on the date of acquisition would be as under:

	Particulars	Debit (₹)	Credit (₹)
1-April-X1	Investment Dr. To Cash/ Bank (Being acquisition of security of face value ₹100 and fair value for ₹90)	90	90

At each reporting date, assuming straight line amortisation, movement of carrying value of the debt security would be as under:

Reporting Date	Opening Carrying value of investment	Interest income	Cash inflow	Carrying value of investment	Fair value of investment at reporting date	Provision as per IRACP norms	Provision for depreciation in value of Investment	Provisions to be made	Provision held already	Provisions to be charged to P&L A/C	Closing Carrying value of investment
(a)	(b)	(c)	(d)	(e) = (b)+(c)-(d)	(f)	(g) = Carrying value on default * (Provision as per IRACP norms) %	(h) = Carrying value on default – Fair value on reporting date	(i) = MAX (g, h)	(j)	(k) = (i) – (j)	(l) = (e)-(i)
31-Mar-X2	90	7	5	92	94 ⁸	-	-	-	-		92 ⁹
31-Mar-X3	92	-	-	92	75	14 ¹⁰	17 ¹¹	17	-	17	75
31-Mar-X4	75	-	-	75	72	23 ¹²	20 ¹³	23	17	6	69

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X2	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual discount)	5 2	7

⁸ This fair value is not relevant for provisioning since the investment is held under HTM and has not been classified as NPI.

⁹ The closing value in this case is the cost adjusted for amortisation of discount as the security has not been classified as an NPI. Therefore, "(l)=(e) – (i)" given in the column header is not relevant here.

¹⁰ IRACP norms would require a provision of 15% of ₹92 i.e., ₹14.

¹¹ Provision for depreciation of investment = Carrying value of investment on default i.e., ₹92 – Fair value on reporting date i.e., ₹75 = ₹17

¹² IRACP norms would require a provision of 25% of ₹92 i.e., ₹23.

¹³ Provision for depreciation of investment = Carrying value of investment on default i.e., ₹92 – Fair value on reporting date i.e., ₹72 = ₹20

On investment becoming NPI:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X3	Provisions for NPI (P&L) Dr. To Provision held ¹⁴ on NPI (Being provision for NPI)	17	17
31-Mar-X4	Provisions for NPI (P&L) Dr. To Provision held on NPI (Being provision for NPI)	6	6

¹⁴ The provision held on NPI shall be reduced from investments while presenting on the Balance Sheet.

Non-Performing Investment (NPI) under AFS

Q.No.5: A bank has acquired a debt security on 1-April-X1 having following particulars.

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 90, Fair Value at time of acquisition: ₹ 90
- Fair value as at 31-Mar-X2 = ₹ 94
- Fair value as at 31-Mar-X3 = ₹ 75 and debt security is classified as substandard asset requiring provision of 15 per cent as per IRACP norms.
- Fair value as at 31-Mar-X4 = ₹ 85 and debt security is classified as doubtful asset requiring provision of 25 per cent as per IRACP norms.

The security is held under AFS.

(Refer Paragraph 51, 101 and 102 of Directions)

Ans:

The accounting entries on the date of acquisition would be as under:

	Particulars	Debit (₹)	Credit (₹)
1-April-X1	Investment Dr. To Cash/ Bank (Being acquisition of security of face value ₹100 and fair value for ₹ 90)	90	90

At each reporting date, assuming straight line amortisation, movement of carrying value of the debt security would be as under:

Reporting Date	Opening Carrying value of investment	Interest income	Cash inflow	Carrying value including discount accrued and cash inflows	Fair value of investment at reporting date	Amount recognised in AFS - Reserve during the year	Provision required as per IRACP norms	Provision for depreciation required vis-à-vis NPI date	Provisions to be made	Provision already held	Provision to be made in current year	Provisions to be charged against accumulated gains available in AFS-Reserve	Provisions to be charged to P&L A/C	Accumulated gains/loss in AFS Reserve	Closing Carrying value of investment
(a)	(b)	(c)	(d)	(e)= (b)+(c)-(d)	(f)	(g)	(h) = Carrying value on default * (Provision as per IRACP norms) %	(i) = Carrying value on default – Fair value on reporting date	(j) = MAX (h, i)	(k)	(l) = (j)-(k)	(m)	(n) = (l)-(m)	(o)	(p) = (e)+(g)-(m)-(n)
31-Mar-X2	90	7	5	92	94	2	-	-	-	-	-	-	-	2	94
31-Mar-X3	94	-	-	94	75	-	14	19	19	-	19	2 ¹⁵	17	-	75
31-Mar-X4	75	-	-	75	85	-	24	9	24	19	5	-	5	-	70

¹⁵The provision required may be created by charging the same to AFS-Reserve to the extent of such available gains. In this case as accumulated gains in AFS-Reserve at close of previous year was ₹ 2. Therefore, provision to the extent of ₹ 2 can be charged to AFS-Reserve.

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X2	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on investment) Investment Dr To AFS-Reserve (Being fair value gain on investment)	5 2 2	7 2
31-Mar-X3	Provisions (P&L) Dr. AFS-Reserve Dr. To Provision held on NPIs (Being provisions for NPIs)	17 2	19
31-Mar-X4	Provisions (P&L) Dr. To Provision held on NPIs (Being provisions for NPIs)	5	5

Q No. 6: A bank has acquired a debt security on 1-April-X1 having following particulars.

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 90, Fair Value at time of acquisition: ₹ 90
- Fair value as at 31-Mar-X2 = ₹ 85
- Fair value as at 31-Mar-X3 = ₹ 80 and debt security is classified as substandard asset requiring provision of 15 per cent as per IRACP norms.
- Fair value as at 31-Mar-X4 = ₹ 60 and debt security is classified as doubtful asset requiring provision of 25 per cent as per IRACP norms.

The security is held under AFS.

(Refer Paragraph 51, 101 and 102 of Directions)

Ans:

The accounting entries on the date of acquisition would be as under:

	Particulars	Debit (₹)	Credit (₹)
1-April-X1	Investment Dr. To Cash/ Bank (Being acquisition of security of face value ₹100 and fair value for ₹ 90)	90	90

At each reporting date, assuming straight line amortisation, movement of carrying value of the debt security would be as under:

Reporting Date	Opening Carrying value of investment	Interest income	Cash inflow	Carrying value including discount accrued and cash inflows	Fair value of investment at reporting date	Amount recognised in AFS - Reserve during the year	Provision required as per IRACP norms	Provision for depreciation required vis-à-vis NPI date	Provisions to be made	Provision already held	Provision to be made in current year	Provisions for accumulated losses in AFS-Reserve	Provisions to be charged to P&L A/C	Accumulated gains/loss in AFS Reserve	Closing Carrying value of investment
(a)	(b)	(c)	(d)	(e)= (b)+(c)-(d)	(f)	(g)	(h) = Carrying value on default * (Provision as per IRACP norms) %	(i) = Carrying value on default – Fair value on reporting date	(j) = MAX (h, i)	(k)	(l) = (j)-(k)	(m)	(n) = (l)-(m)	(o)	(p) = (e)+(g)-(m)-(n)
31-Mar-X2	90	7	5	92	85	-7	-	-	-	-	-	-	-	-7	85
31-Mar-X3	85	-	-	85	80	-	13	5	13	-	13	-7 ¹⁶	20	-	72
31-Mar-X4	72	-	-	72	60	-	21	25	25	13	12	-	12	-	60

¹⁶In the case of an investment categorised under AFS against which there are cumulative losses in AFS-Reserve, the cumulative losses shall be transferred from AFS-Reserve to the Profit and Loss Account. In this case as accumulated loss in AFS-Reserve at close of previous year was ₹ 7. Therefore, ₹ 7 should be charged to P&L Account on debt security becoming NPI.

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X2	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on investment) AFS-Reserve Dr. To Investment (Being fair value loss on investment recognised in AFS-Reserve)	5 2 7	7 7
31-Mar-X3	Provisions (P&L) Dr. To AFS-Reserve To Provision held on NPIs (Being reversal of cumulative losses in AFS-Reserve and provisions for NPIs)	20	7 13
31-Mar-X4	Provisions (P&L) Dr. To Provision held on NPIs (Being provisions for NPIs)	12	12

Non-Performing Investment (NPI) under AFS subsequently upgraded

Q.No.7: A bank has acquired a debt security on 1-April-X1 having following particulars.

- Face Value: ₹ 100, coupon: 5%, Residual tenor: 5 years
- Acquisition cost: ₹ 85, Fair Value at time of acquisition: ₹ 85
- Fair value as at 31-Mar-20X2 = ₹ 90
- Fair value as at 31-Mar-20X3 = ₹ 80 and debt security is classified as substandard asset requiring provisions of 15 per cent as per IRACP norms.
- Fair value as at 31-Mar-20X4 = ₹ 97 and upgraded to standard asset.
- Fair value as at 31-Mar-20X5 = ₹ 97

The security is held under AFS.

(Refer Paragraph 51, 101, 102 and 103 of Directions)

Ans:

The accounting entries at the acquisition date of securities would be as under:

	Particulars	Debit (₹)	Credit (₹)
1-April-X1	Investment Dr. To Cash/ Bank (Being acquisition of security of face value ₹100 and fair value for ₹85)	85	85

At each reporting date, assuming straight line amortisation, movement of carrying value of the debt security would be as under:

Reporting Date	Opening Carrying value of investment	Interest income	Cash inflow	Carrying value including discount accrued and cash inflows	Fair value of investment at reporting date	Amount recognised in AFS - Reserve during the year	Provision required as per IRACP norms	Provision for depreciation required vis-à-vis NPI date	Provisions to be made	Provision already held	Provision to be made in current year	Provisions to be charged against accumulated gains available in AFS-Reserve	Provisions to be charged to P&L A/C	Accumulated gains/loss in AFS Reserve	Closing Carrying value of investment
(a)	(b)	(c)	(d)	(e)= (b)+(c)-(d)	(f)	(g)	(h) = Carrying value on default * (Provision as per IRACP norms) %	(i) = Carrying value on default – Fair value on reporting date	(j) = MAX (h, i)	(k)	(l) = (j)-(k)	(m)	(n) = (l)-(m)	(o)	(p) = (e)+(g)-(m)-(n)
31-Mar-X2	85	8	5	88	90	2	-	-	-	-	-	-	-	2	90
31-Mar-X3	90	-	-	90	80	-	14	10	14	-	14	2	12	-	76
31-Mar-X4	76	16	10	82	97	3 ¹⁷	-	-	-	14	-14	-	-12 ¹⁸	3	97
31-Mar-X5	97	8	5	100	97	-3	-	-	-	-	-	-	-	-	97
31-Mar-X6	97	8	105	-	-	-	-	-	-	-	-	-	-	-	-

The accounting entries would be as under:

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X2	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on investment)	5 3	8

¹⁷ When debt security is upgraded and previously charged provision to P&L account is reversed, the carrying value of security becomes ₹ 94. However, fair value of the security on reporting date is ₹ 97. Therefore, gain of ₹ 3 would be recognised in AFS-Reserve.

¹⁸ The amount represents the reversal of provisioning previously charged to the Profit & Loss Account. Therefore, the column header of '(n)=(l)-(m)' is not applicable.

	Particulars	Debit (₹)	Credit (₹)
	Investment Dr. To AFS-Reserve (Being fair value gain on investment recognised in AFS-Reserve)	2	2
31-Mar-X3	Provisions (P&L) Dr. AFS-Reserve Dr. To Provision held on NPIs (Being provision for NPI charge to P&L and previously recognised gains in AFS-Reserves)	12 2 14	
31-Mar-X4	Provision held on NPIs Dr. To Provisions (P&L) (Being reversal of previously recognised provisions for NPIs) Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being receipt of coupon and accrual of discount on investment on upgrade (including for the period that the investment was an NPI)) Investment Dr. Provision held for NPI Dr. To AFS-Reserve (Being fair value gain on investment recognised in AFS Reserve)	12 10 6 16 1 2 3	12 16 3
31-Mar-X5	Cash/ Bank Dr. Investment Dr. To Interest earned (P&L) (Being accrual of coupon and discount on investment) AFS-Reserve Dr To Investment (Being fair value loss on investment recognised in AFS-Reserve)	5 3 3 3	8 3

	Particulars	Debit (₹)	Credit (₹)
31-Mar-X6	Cash/ Bank Dr. To Interest earned (P&L) To Investment (Being receipt of maturity proceeds with final coupon and accrual of discount on investment)	105	8 97