

RBI releases prudential norms for classification, valuation and operation of Investment Portfolio by Banks

This is with reference to circular UBD.No.BPD.PCB.Cir.12/09.29.00/2003-04 dated September 04, 2003 on 'Guidelines for Investment Fluctuation Reserve' issued to Primary (Urban) Cooperative Banks (UCBs), and circular RPCD.No.RF.BC.17/A.4-92/93 dated September 04, 1992 on 'Investment Portfolio of Banks - Transactions in Securities' and subsequent instructions in this regard issued to all State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs).

With a view to address the systemic impact of sharp increase in the yields on Government Securities, RBI has decided to grant UCBs which are not mandatorily required to create Investment Fluctuation Reserve (IFR) in terms of Para (2) of the aforesaid circular (i.e. UCBs with aggregate DTL less than Rs. 100 crore as on March 31, 2017), the option to spread provisioning for mark to market (MTM) losses on investments held in AFS & HFT category for the quarters ended December 31, 2017, March 31, 2018 and June 30, 2018 only. The provisioning for each of these quarters may be spread equally over up to four quarters, commencing with the quarter in which the loss was incurred. It has also been decided to grant similar option to all StCBs / DCCBs in respect of investments held in Current category.

Further, with a view to building up adequate reserve to guard against market risks, henceforth, all co-

operative banks shall build IFR out of realized gains on sale of investments, and subject to available net profit. All UCBs, irrespective of their DTL, shall be required to maintain IFR as prescribed in para (i) of aforesaid circular. All StCBs / DCCBs shall also be required to maintain IFR on similar lines, minimum threshold in which shall be computed with reference to their investment in Current category.

A bank may, at its discretion, draw down the balance available in IFR in excess of 5 percent of its investment in Available for Sale (AFS) & Held for trading (HFT) / Current category (as applicable), for credit to the balance of profit / loss as disclosed in the profit and loss account at the end of any accounting year. In the event the balance in the IFR is less than 5 percent of its investment in AFS & HFT / Current category (as applicable), a draw down will be permitted subject to the following conditions:

- a) The drawn down amount is used only for meeting the minimum Tier I capital requirements by way of appropriation to free reserves or reducing the balance of loss, and
- b) The amount drawn down is not more than the extent to which the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during that year.

The IFR consisting of realised gains from sale of investments held in AFS & HFT / Current category (as applicable) will be eligible for inclusion in Tier II capital.

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Warm regards,

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