Annex

Draft revised guidelines on classification and valuation of investments

1. Classification

(i) The global investment portfolio of banks (including SLR securities and non-SLR securities) should be classified under three categories viz. 'Held to Maturity' (HTM), 'Held for Trading' (HFT) and 'Available for Sale'(AFS). However, in the balance sheet, the investments will continue to be disclosed as per the existing six classifications viz. a) Government securities, b) Other approved securities, c) Shares, d) Debentures & Bonds, e) Subsidiaries/ joint ventures and f) Others (CP, Mutual Fund Units, etc.).

(ii) Banks should decide the category of investment at the time of acquisition and the decision should be recorded on the investment proposals.

(iii) Held to Maturity

Securities with fixed or determinable payments and fixed maturity that a bank has positive intention and ability to hold to maturity may be classified as Held to Maturity. For example, investment in equity shares (including banks' investment in the equity shares of their subsidiaries/ joint ventures), perpetual preference shares, units of open ended mutual fund schemes and securities with a put option would not qualify for inclusion in HTM category.

A bank does not have a positive intention to hold to maturity an investment in a financial asset with a fixed maturity if:

(a) it intends to hold the financial asset for an undefined period;

(b) it stands ready to sell the financial asset (other than if a situation arises that is non-recurring and could not have been reasonably anticipated by the bank) in response to changes in market interest rates or risks, liquidity needs, changes in the availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or

(c) the issuer has a right to settle the financial asset at an amount significantly below its amortised cost.

Banks should weed out ineligible securities held in HTM category and shift these securities to AFS category any time during the first calendar quarter in which these guidelines become effective. Such shifting should be done at market value. On such reclassification, the difference between their book value and market value shall be accounted for in 'Unrealised gains/ losses on AFS portfolio'. Consequently, the market value of the individual security on the date of shifting would become the book value of the security in the AFS portfolio.

Banks' Boards shall fix internal limits for holdings in HTM category, which shall be followed on a consistent basis at least for a period of 3 to 5 financial years, without any change.

(iv) Held for Trading

Trading generally reflects active and frequent buying and selling. The securities acquired principally for the purpose of selling in the near term with the objective of generating profit from short term fluctuations in price/ interest rates may be classified as Held for Trading. These securities are to be sold within 90 days.

(v) Available for Sale

Available for sale securities are those securities that are designated as available for sale or are not classified under HTM or HFT categories. Banks shall include their investments in the equity shares of their subsidiaries/ associates/ joint ventures in AFS category.

2. Initial recognition

All transactions of sale/ purchase of securities should be reflected in the books as per trade date accounting method. The trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to :

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

An illustration of trade date accounting is furnished in Appendix I.

3. Initial measurement

(i) Held to Maturity

When securities are recognised initially in HTM category, banks shall measure them at their market value plus transactions costs that are directly attributable to the acquisition of the securities; i.e., at the time of initial recognition, transaction costs are reckoned as a part of book value of the security and included in the calculation of the amortised cost using the effective interest rate method.

Interest accrued up to the date of acquisition of securities (i.e., broken period interest) is excluded from the acquisition cost and recognised as interest expense.

(ii) Held for Trading

When securities are recognised initially in HFT, banks shall measure them at their market value ignoring the transaction costs. The costs directly attributable to acquisitions shall be accounted as under:

(a) Brokerage / commission received on subscription may be treated as income.

(b) Brokerage, commission and stamp duty paid in connection with acquisition of securities may be treated as expenditure.

(c) Interest accrued up to the date of acquisition of securities (i.e., broken period interest) is excluded from the acquisition cost and recognised as interest expense.

(iii) Available for Sale

When securities are recognised initially in AFS category, banks may measure them at their market value plus transactions costs that are directly attributable to the acquisition of the securities.

While determining costs directly attributable to acquisitions, interest accrued up to the date of acquisition of securities (i.e., broken period interest) is excluded from the acquisition cost and recognised as interest expense.

Transaction costs include:

- Fees and commissions paid to agents, advisers, brokers and dealers;
- Levies by regulatory agencies and securities exchanges; and
- Transfer taxes and duties.

Transaction costs do not include:

- Debt premium or discount financing costs;
- Allocations of internal administrative or holding costs;

4. Subsequent measurement

(i) Held to Maturity

Investments classified under Held to Maturity category need not be marked to market and may be measured at amortised cost using the effective interest method. The book value of the individual securities would change after each subsequent measurement.

Amortised cost

The amortised cost of securities is the amount at which securities are measured at initial recognition:

(i) **plus or minus** the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and

(ii) **minus** any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Effective interest method

Effective interest method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the relevant period. The effective interest rate is the rate at the time of initial recognition, that exactly discounts estimated future cash or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated

reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

For floating rate securities, the effective interest rate is based on discounting cash flows through the next market based repricing date; ie. the effective interest rate is to be recomputed based on the latest floating rate.
Illustration on calculation of amortised cost is furnished in Appendix II .

(ii) Held for Trading

Investments included under HFT category should be measured at market value (which is to be determined as indicated in Appendix III) at the end of each day. The book value of the individual securities would change after each of the subsequent measurements. Both gains and losses on revaluation shall be taken to Profit & Loss account.

(iii) Available for Sale

Investments included under AFS category should be measured at market value at consistent monthly or more frequent intervals. For this purpose, banks will compare the amortised cost of the investments with fixed and determinable payments and which have a definite life, with its market value (which is to be determined as indicated in Appendix III). The book value of the individual securities would change after each subsequent measurement. An illustration of the method to be adopted at the time of subsequent measurement is furnished in Appendix IV .

In case bank's investment in equity shares (including their investments in equity shares of their subsidiaries/ associates/ joint ventures,) included under AFS, do not have a market value, the same shall be measured at cost, but subjected to the test for impairment.

As transaction costs are added to the cost of securities in AFS category at the time of initial recognition, they are effectively recognised in 'Unrealised gain/ loss on AFS portfolio' as part of a change in market value at the time of first re-measurement. Further, as they are factored in while calculating effective interest rate, they get amortised to Profit & loss account, over the life of the asset. There is no need to

account for/ amortise transaction costs separately in respect of securities in AFS category.

If an available-for-sale financial asset does not have fixed or determinable payments and has an indefinite life, the transaction costs are recognised in profit or loss when the asset is sold or becomes impaired.

5. Gains or losses

(i) Held to Maturity

A gain or loss on subsequent measurement through amortisation process and on sale of HTM securities shall be recognised in the Profit and Loss account.

(ii) Held for Trading

A gain or loss on subsequent measurement and on sale of HFT securities shall be reflected in the Profit and loss account.

(iii) Available for Sale

A gain or loss on subsequent measurement of Available for Sale securities shall be reflected in 'Unrealised gain/ loss on AFS portfolio'. On sale, the cumulative gain or loss previously recognised in 'Unrealised gain/loss on AFS portfolio' shall be recognised in the Profit or Loss account.

Credit balance in 'Unrealised gain/loss on AFS portfolio' should be included as a separate item under Schedule 5 : 'Other Liabilities and Provisions'. Credit balances in 'Unrealised gain/loss on AFS portfolio' (a) may not be reckoned as an 'outside liability' while computing DTL for the purposes of maintaining CRR/ SLR and (b) shall not be an eligible item of capital funds for capital adequacy purposes. Debit balance in 'Unrealised gain/loss on AFS portfolio' should be included as a separate item under Schedule 11: 'Other Assets'. Since a debit balance in 'Unrealised gain/loss on AFS portfolio' is in the nature of intangible assets, it shall be deducted from Tier I capital for capital adequacy purposes.

6. Reclassifications

(i) Held to Maturity

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as Held to Maturity, it shall be reclassified as Available for Sale and re-measured at market value, and the difference between its book value and market value shall be accounted for in 'Unrealised gain/loss on AFS portfolio'. The book value of individual securities would undergo change. The above method should also be adopted while shifting ineligible securities from HTM to AFS in compliance with paragraph 1(iii) above.

Limit on reclassification

A bank should not classify any security as HTM, if the bank has, during the current financial year, sold or reclassified before maturity, more than 5 per cent of HTM investments at the end of the previous financial year.

For computing the 5 per cent limit on HTM investments, the following would be excluded:

(i) securities sold/ reclassified, where the residual period to maturity/ call date is not more than 90 days, since changes in market rate of interest would not have a significant effect on the security's market value, or

(ii) where the sale/ reclassification occurs after the enterprise has collected at least 90 per cent of the security's original principal through scheduled payments or prepayments; or

(iii) where the sale / reclassification is attributable to an isolated event that is beyond the bank's control, is non recurring and could not have been reasonably anticipated by the bank.

Whenever sale or reclassification of HTM securities exceed the specified limit of 5 per cent of HTM investments**,** all remaining HTM investments should be reclassified as AFS on that day. On such reclassification, the difference between their carrying amount and market value shall be accounted for in 'Unrealised gain/loss on AFS portfolio'. The book value of the individual securities would undergo change. Further, the bank shall not classify/ hold any securities in HTM category during the remaining part of the financial year and for two subsequent financial years.

This limit shall become applicable from financial year commencing on April 1, 2008.

(ii) Held for Trading

Banks should not reclassify securities into or out of the Held for Trading category while it is held. However, shifting of investments from HFT category to AFS category will be permitted under exceptional circumstances like not being able to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or market becoming unidirectional. Such transfer is permitted only with the approval of the Board of Directors/ ALCO/ Investment Committee.

Transfer of scrips from HFT to AFS category should be done at the acquisition cost/ book value/ market value on the date of transfer, whichever is the least. The book value of the individual securities would undergo change with a corresponding debit to the Profit & Loss account.

(iii) Available for Sale

Banks should not reclassify securities out of the AFS category, while it is held.

7. Non performing investments

A non performing investment (NPI) is one where:

i) Interest/ dividend/ instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.

ii) If any credit facility availed by the issuer is NPA or any instrument issued by the issuer is NPI in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as NPI and vice versa.

8. Identification of NPI in specific categories

I. Preference shares

(a) NPI status of non-cumulative preference shares

A non-cumulative preference share may be considered as NPI, when :

(i) The Board has not declared a dividend for any year in the last three years.

or

The rate of dividend declared is lower than the rate prescribed in the terms of issue of the preference share.

OR

(ii) The dividend declared by the Board as an interim dividend or by the shareholders as a final dividend remains unpaid after the expiry of 30 days after the date of declaration.

(c) NPI status of cumulative shares

A cumulative preference share may be considered as an NPI, where there are at any point of time, arrears of preference dividend, which have remained unpaid.

II. Equity shares

Equity shares which are included in the HFT/ AFS categories should be tested for impairment at each time of marking to market. The following aspects may be tested to identify impairment in equity shares on the basis of a board approved policy :

(a) Considerable erosion in networth. When the eroded networth is less than 75% of the paid up value of the equity share capital, the erosion may be considered to be 'considerable'. This criteria would not be applicable for investment as a part of project finance of a new company for a period of two years after commencement of production or five years after subscription, whichever is earlier.

(b) Company incurring losses for last three years.

(c) Significant financial difficulty expressed by the issuer or obligor.

(d) The disappearance of an active market for that financial asset because of financial difficulties of the issuer; i.e the share is not 'actively traded'.

9. Recognition of impairment

In respect of securities included in any of the three categories which are identified as NPI :

i) Where a market price, as defined in Appendix III is available, that price would reflect the extent of impairment.

ii) With regard to rated securities which do not have a market price, the market price derived as per Appendix III would factor in the extent of impairment through the current rating of the security.

iii) In respect of unrated securities, banks may take the lower of :

(a) the price derived as per the matrix furnished below and

(b) the market price derived as per Appendix III for performing investments.

iv) The matrix given below indicates the minimum level of impairment to be reckoned for secured portion of NPIs as per the age of NPI and shall be applied to **all** securities except equity. In addition, the impairment to be reckoned for unsecured portion would be 100 per cent. The matrix indicating the recommended minimum level of impairment for secured portion is as under:

		Level of impairment (% of secured portion)			
Sr No.	**Age of NPI Category**	**< 1 year**	**1-2 years**	**2-4 years**	**> 4 years**
1	Yet to mature	10 %	20 %	30 %	100 %
2	Matured	100 %	100 %	100 %	100 %

v) Valuation of non-performing non-cumulative preference shares

Where a non-cumulative preference share is considered as an NPI, the discount in the preference share should be calculated based on the performance over the last three years :

Sr No.	**Dividend not declared/ paid for**	**Discount/ depreciation requirement**
1.	1 out of last 3 years	15 %
2.	2 out of last 3 years	30 %
3.	All 3 years	50 %
4.	More than 3 years	100 %

vi) Valuation of non-performing cumulative preference shares

Sr No.	**Arrears of dividend for**	**Discount/ depreciation requirement**
1.	1 year	15 %
2.	2 years	30 %
3.	3 years	50 %
4.	More than 3 years	100 %

vii) Additional conditions while calculating discount

(a) Discount shall not apply during the period when the company has not commenced business or for three years thereafter.

(b) The discounted value of the preference shares shall not be lower than the discounted redemption value.

viii) Calculation of discounted redemption value of preference shares

The discounted value of preference shares considered as an NPI should be calculated as under :

(a) The redemption value (including premium) on redemption should be discounted over the balance period before redemption at the coupon rate.

(b) If the accumulated profits available for distribution are less than the redemption value, the discounted value shall be calculated on the (lower) accumulated profits available for distribution.

xi) Illustration for calculation of redemption value of preference shares :

Total no. of preference shares : 10,000

Face value : Rs 100

Redeemable at Rs 110 after 3 years.

Accumulated profits : Rs 10,00,000

Dividend in arrears : 2 years

(a) Discounted value because of arrears of dividend :

i.e 70 % of Rs 100 = **Rs 70**

(b) Discounted redemption value :

Total redemption value 10,000 × 110 = Rs 11,00,000

Available accumulated profits = Rs 9,00,000

Present value of Rs 9,00,000 @ 6 % for 3 years = Rs 7,55,668

Each share = **Rs 75.57**

(c) As the discounted value of the preference shares shall not be lower than the discounted redemption value. ∴ higher of (a) and (b) is to be taken into account , i.e **Rs 75.57**

x) Valuation of impaired equity

As regards impaired equity, banks may apply the usual valuation norms applicable to equity shares as per Appendix III. The impaired equity shares would be valued at net worth per share [*](without considering 'revaluation reserves', if any) which is to be ascertained from the company's latest balance sheet (which should not be more than 18 months prior to the date of valuation) or book value or cost, whichever is lower. In case the latest balance sheet is not available or is more than 18 months old, the shares should be valued at Re.1 per company.

xi) On impairment in securities held under 'Available for Sale' category, the cumulative loss previously recognised in 'Unrealised gain/ loss on AFS portfolio' shall be recognised in profit or loss account

xii) The impairment in value of securities in respect of HFT and AFS categories would be reflected in P& L account as the book values of these securities would change accordingly. For non-performing securities in HTM category, banks may maintain provisions in a separate allowance account for 'Provisions on NPI in HTM category'. The current balance in Provisions for depreciation on NPI may be credited to this account.

10. Income recognition

i) Banks may recognise income on interest bearing securities held in HTM and AFS categories using effective interest rate method on accrual basis, if they are not classified as NPI.

ii) Banks may recognise income on interest bearing securities held in HFT category on an accrual basis with reference to the coupon, if they are not classified as NPI.

iii) Banks may recognise income in respect of discounted instruments including zero coupon bonds on accrual basis at the rate of discount prevailing at the time of original acquisition, if they are not classified as NPI.

---

[*] Net worth per share = [Share capital + Reserves (excluding revaluation reserves) – Misc expenditure and debit balance in P & L a/c] divided by number of paid up shares.

iv) Banks may recognise income from dividend on preference shares and equity shares of corporate bodies, if they are not classified as NPI, on accrual basis provided dividend on the shares has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.

v) Banks should recognise income from units of mutual funds only on cash basis.

vi) In respect of non-performing investments, banks should :

a) derecognise the entire uncollected interest/ discount recognised earlier on accrual basis; and

b) recognise income only on cash basis.

11. Broken Period Interest

Banks should not capitalise the Broken Period Interest paid to seller as part of cost, but treat it as an item of expenditure in the Profit and Loss Account in the accounting period when the security is acquired.

12. Non- SLR investments

The extant norms on listing, rating and disclosure requirements pertaining to Non-SLR investments remain unchanged.

13. Repo

The extant norms on inter-bank repos remain unchanged. Banks shall ensure that the second leg of repo/ reverse repo transactions should be to/ from the same category as in the first leg.

14. Disclosure requirements

As at present, investments will be disclosed as per the following six classifications in schedule to the balance sheet, viz;

a) Government securities,

b) Other approved securities,

c) Shares,

d) Debentures & Bonds,

e) Subsidiaries/ joint ventures and
f) Others (CP, Mutual Fund Units, etc.).

With a view to enhance the level of disclosures pertaining to banks' investment portfolio, banks shall make the disclosures prescribed in the Appendix V in the Notes on Accounts to the balance sheet and also disclosed along with the disclosures mandated under Pillar 3 of New Capital Adequacy framework.

In the case of foreign banks, the prescribed disclosures should be made in the "Notes on Accounts" to the balance sheet for the Indian operations of the concerned foreign banks and also disclosed along with the disclosures mandated under Pillar 3 of New Capital Adequacy framework.

15. Effective date

The revised guidelines would be applicable from April 1, 2007.

Appendix I

Illustration - Trade date accounting

The following example illustrates the application of the trade date accounting principles at the time of purchase of a financial asset. On 29 March 2006, an entity commits itself to purchase a financial asset for Rs 1,000, which is its market value on commitment (trade) date. Transaction costs are immaterial. On 31 March 2006 (financial year-end) and on 4 April 2006 (settlement date) the market value of the asset is Rs 1,002 and Rs 1,003, respectively. The amounts to be recorded for the asset will depend on how it is classified as shown in the table below :

(Amount in Rs.)

TRADE DATE ACCOUNTING			
Balances	**Held-to- Maturity Investments carried at amortised cost**	**Available-for-Sale assets re-measured to market value with changes in UGA**	**Held for Trading re-measured to market value with changes in Profit or Loss**
29 March 2006			
Financial asset	1000	1000	1000
Financial liability	(1000)	(1000)	(1000)
31 March 2006			
Financial asset	1000	1002	1002
Financial liability	(1000)	(1000)	(1000)
UGA	--	(2)	--
P & L account	--	--	(2)
4 April 2006			
Financial asset	1000	1003	1003
Financial liability	--	--	--
UGA	--	(3)*	--
P & L account		--	(3)*

Note : Figures in brackets indicate credit balance and others indicate debit balance
* Cumulative position

Appendix II

Illustration - Calculation of amortised cost

Amortised cost is calculated using the effective interest method. The effective interest rate inherent in a financial instrument is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument or, where appropriate, a shorter period to the net carrying amount at initial recognition. The computation includes all amounts paid or received between parties to contract that are an integral part of the effective interest rate, directly attributable transaction costs and all other premiums or discounts.

The following example illustrates how amortised cost is calculated using the effective interest method. A bank purchases a debt instrument with five years remaining to maturity for its market value of Rs.1,000 (presuming no or insignificant transaction costs). The instrument has a principal amount of Rs.1,250 and carries fixed interest of 4.7 per cent that is paid annually (Rs 1,250 x 4.7 per cent = Rs. 59 per year).

The table below provides information about the amortised cost, interest income and cash flows of the investment in each reporting period.

Year	*(a)*	*(b = ax10%)*	*(c)*	*(d = a + b - c)*
	Amortised cost at the beginning of the year	*Interest income as per effective interest rate*	*Cash flows*	*Amortised cost at the end of the year*
2005	1,000	100	59	1,041
2006	1,041	104	59	1,086
2007	1,086	109	59	1,136
2008	1,136	113	59	1,190
2009	1,190	119	1,250+59	-

Appendix III

Procedure for market valuation

'Market value' for the purpose of periodical valuation of investments would be the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The market price of securities on the date of valuation would normally be reflected in the closing prices as available from secondary market or prices declared by Fixed Income Money Market and Derivatives Association of India (FIMMDA) periodically.

In respect of securities, whose prices as above are not available on the date of valuation, the following procedure should be adopted for identifying the market price:

1. State Government Securities

State Government securities will be valued applying the YTM method by marking up the yields of the Central Government Securities of comparable maturity put out by FIMMDA periodically by 50 basis points.

2. Debentures/ Bonds (including other 'approved' securities)

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

(a) The mark up for rated debentures/ bonds should reflect the average credit risk spread as reflected in the trading during the previous one month in secondary market, subject to there being a minimum of 25 trades of marketable lots in securities of each issuer during that period. In the absence of the minimum trading requirement, as above, the YTM for a AAA rated security should be at least 50 basis points above the rate applicable to a Government of India loan of comparable maturity.

(b) The mark-up for the debentures/ bonds should appropriately reflect the credit risk borne by the bank.

(c) The YTM rate for unrated debentures/ bonds should not be less than the rate applicable to rated debentures/ bonds of equivalent maturity.

The rating relied upon will be deemed to be current or valid if:

i) The credit rating letter relied upon is not more than one month old on the date of opening of the issue, and

ii) The rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and

iii) The rating letter and the rating rationale is a part of the offer document.

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

3. Treasury Bills, Zero Coupon Bonds, Commercial Paper and other discounted instruments

In the absence of market value, the present value of the zero coupon bond derived 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 periodically, may be taken as market price.

Treasury Bills and commercial papers may continue to be valued at carrying cost, as at present.

4. Preference Shares

All preference shares should be valued on YTM basis with appropriate mark-up over the YTM rates for Central Government securities as put out by FIMMDA periodically. The mark-up will be graded according to the current ratings assigned to the preference shares by the rating agencies subject to the following: -

(a) The mark up for rated preference shares should reflect the average credit risk spread as reflected in the trading during the previous one month in secondary market, subject to there being minimum of 25 trades of marketable lots in securities of each issuer during that period. In the absence of the minimum trading requirement, as above, the YTM for a AAA rated security should be at least 50 basis points above the rate applicable to a Government of India loan of comparable maturity.

(b) The mark-up for the preference shares should appropriately reflect the credit risk borne by the bank.

(c) The YTM rate for unrated preference shares should not be less than the rate applicable to rated preference shares of comparable maturity.

(d) Investments in preference shares as part of project finance may be valued at par for a period of two years after commencement of production or five years after subscription, whichever is earlier.

(e) The preference share should not be valued above its redemption value.

(f) When a preference share has been traded on stock exchange within 15 days prior to the valuation date, the value should not be higher than the price at which the share was traded.

5. Equity Shares

For the purpose of valuation, equity shares would be first classified as ‘Actively traded’, ‘Thinly traded’ and ‘Non-traded’ as per the following criteria :

1. Traded equity share :

When an equity share is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date.

2. Thinly Traded Equity shares :

When trading in an equity share in a month is less than Rs. 5 lacs or the total volume is less than 50,000 shares, it shall be considered as a thinly traded security and valued accordingly.

3. Non Traded Equity shares :

When a equity share is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a ‘non traded’ security.

The ‘thinly traded’, ‘non-traded’ and ‘unquoted’ equity shares including, banks’ investment in the equity shares of their subsidiaries/ joint ventures/ associates (included under AFS), shall be measured at cost, but subject to an impairment test as per Board approved policy, in accordance with the broad requirements specified in paragraph 8(ii) of the guidelines.

6. Mutual Funds Units (including Venture Capital Funds)

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

7. Investments in RRBs

Investment in RRBs, in terms of paragraph 1(v) of the guidelines would be included under AFS category and in terms of paragraph 4(iii) would be measured at cost, if they do not have a market value.

8. Investment in securities issued by SC/RC

Initial recognition

When banks / FIs invest in the security receipts / pass-through certificates issued by Securitisation Company (SC) / Reconstruction Company (RC) in respect of the financial assets sold by them to the SC / RC, the sale shall be recognised in books of the banks / FIs at the lower of:

- the redemption value of the security receipts / pass-through certificates, and
- the NBV of the financial asset.

Subsequent measurement

All instruments received by banks / FIs from SC / RC as sale consideration for financial assets sold to them and also other instruments issued by SC / RC in which banks / FIs invest will be in the nature of non-SLR securities. Accordingly, banks' investment in debentures / bonds / security receipts / PTCs issued by SC / RC would attract the listing, rating and disclosure requirements pertaining to non-SLR investments prescribed by RBI from time to time.

However, if any of the above instruments issued by SC / RC is limited to the actual realisation of the financial assets assigned to the instruments in the concerned

scheme, the bank / FI shall reckon the Net Asset Value (NAV), obtained from SC / RC from time to time, for valuation of such investments.

9. Investment in securities issued by SPV

Banks, NBFCs and FIs have been allowed to securitise their standard assets through SPV structure. As the securities issued by such SPVs would be in the nature of non-SLR securities, banks' investment in these securities would attract the listing, rating and disclosure requirements pertaining to non-SLR investments prescribed by RBI from time to time. As these would be limited-tenor, interest bearing debt instruments, they should be valued on YTM basis with appropriate mark-up over the YTM rates for Central Government securities as put out by FIMMDA periodically.

Appendix IV

Illustration - Subsequent measurement

On subsequent measurement of investments included in Held for Trading and Available for Sale categories, how is the gain or loss that is recognised in Profit and loss account or UGA determined?

It is the difference between the amortised cost and market value of the Held for Trading (HFT) and Available for Sale (AFS) investments.

To illustrate: on 31 March 2004, a bank acquires a bond for market value of Rs.1,000. The bond has five years remaining to maturity and a principal amount of Rs.1,250, carries fixed interest of 4.7 per cent per annum that is paid annually (Rs1,250 x 0.047 = Rs. 59 per year), and has an effective interest rate of 10 per cent. The gains and losses would be recognized in in UGA, if the bond is classified as AFS.

Dr Investment Rs.1000
Cr Cash Rs.1000

On 31 March 2005, the market value of the bond is Rs.1060. The amortised cost is Rs.1041 (please refer to Appendix II). In this case, the cumulative gain or loss to be recognised directly in UGA is the difference between the market value and the amortised cost on 31 March 2005, i.e., Rs.19 (= Rs.1060 – Rs.1041).

Interest received on the bond on 31 March 2005 is Rs.59. Interest income determined in accordance with the effective interest method is Rs.100 (i.e., Rs.1000 x 0.10). Thus, reported interest income is Rs.100, including accretion of the initial discount of Rs.41 (= Rs.1041 – Rs.1000).

On 31 March 2005 –on subsequent measurement

Dr Investment	Rs.60		
Dr Cash	Rs.59		
	Cr	Interest income	Rs.100
	Cr	Market value change reflected in P & L account/ in UGA	Rs.19

On 31 March 2006, the market value of the bond is Rs.1070. The amortised cost is Rs.1086 (please refer to Appendix II). In this case, the cumulative gain or loss to be

recognised directly in UGA is the difference between the market value and the amortised cost on 31 March 2006, i.e., negative Rs.16 (= Rs.1070 – Rs.1086).

Interest received on the bond on 31 March 2006 is Rs.59. Interest income determined in accordance with the effective interest method is Rs.104 (= Rs.1041 x 0.10). Thus, recognised interest income is Rs.104, including accretion of the initial discount of Rs.45 (= Rs.1086 – Rs.1041).

On 31 March 2006 –on subsequent measurement

Dr	Investment	Rs.10		
Dr	Cash (i.e. 1250 X 0.047)	Rs.59		
Dr	Market value change reflected in UGA	Rs.35 (19 +16)[*]		
		Cr	Interest income (i.e., 1041 x 0.10)	Rs.104

As on	**Book value of investment (Rs)**
31 March 2004	1000
31 March 2005	1060
31 March 2006	1070

[*] As the cumulative gain or loss is to be reflected in UGA, the gain earlier recognized in UGA is also to be reversed.

Appendix V

Disclosures format

(i) Total investments*

(Amount Rs. crore)

Sr. No.	Categories	Held to Maturity	Available for Sale	Held for Trading
1	Government securities			
2	Other approved securities			
3	Shares			
4	Debentures			
5	Subsidiaries and/or joint ventures			
6	Others			

Note: * The total of the three categories should tally with the total investments shown in Schedule VIII to the Balance sheet and Profit and loss account

(ii) Non Performing investments

(Amount Rs. crore)

Sr. No.	Categories	Held to Maturity	Available for Sale	Held for Trading
1	Government securities			
2	Other approved securities			
3	Shares			
4	Debentures			
5	Subsidiaries and/or joint ventures			
6	Others			

(iii) Issuer composition of Non-SLR investments

(Amount Rs. crore)

Sr. No. 1	Issuer 2	Amount 3	Extent of private placement 4	Extent of 'below investment grade' securities 5	Extent of 'unrated' securities 6	Extent of 'unlisted' securities 7
1	PSUs					
2	FIs					
3	Banks					
4	Private Corporates					
5	Subsidiaries / Joint ventures					
6	Others					
7	Provision held towards depreciation		**XXX**	**XXX**	**XXX**	**XXX**
	Total *					

NOTE: 1. * Total under column 3 should tally with the total of investments included under the following categories in Schedule 8 to the balance sheet:

a. Shares
b. Debentures & Bonds
c. Subsidiaries/joint ventures
d. Others

2. Amounts reported under columns 4, 5, 6 and 7 above may not be mutually exclusive.

a. Movement of provisions for non-performing investments in HTM category :

Particulars	Amount (Rs. crore)
Opening balance	
Add : Provisions made during the year	
Less : Write-off during the year.	
Add : Write-back of excess provisions during the year	
Closing balance	

(v) Net cumulative gain or loss on account of subsequent measurement

(Amount Rs. crore)

Sr No.	Categories	Available for Sale
1	Government securities	
2	Other approved securities	
3	Shares	
4	Debentures	
5	Subsidiaries and/or joint ventures	
6	Others	

(vi) Movement of securities in HTM category

Amount of securities sold from/ reclassified out of HTM category

(vii) Movement of Unrealised gain / loss on AFS portfolio

Particulars	Amount (Rs. crore)
Opening balance (debit/ credit)	
Additions during the year	
Reductions during the year	
Closing balance (debit / credit)	

(viii) Repos

(Rs. in crore)

	Minimum outstanding during the year	**Maximum outstanding during the year**	**Daily Average outstanding during the year**	**As on March 31**
Securities sold under repos				
Securities purchased under reverse repos				