Prudential norms for classification, valuation and operation of investment portfolio by banks

DBOD. BP.BC. 3 / 21.04.141/ 2003- 2004

17 July 2003

All Scheduled Commercial Banks
(excluding RRBs & LABs)

Dear Sir/ Madam,

Prudential norms for classification, valuation and operation of investment portfolio by banks

As you are aware, the Government of India had announced the proposal to offer buyback of illiquid securities from banks on a voluntary basis, in its budget proposals for 2003-2004. It was also indicated that if the banks declare the premium received under the buyback scheme as business income, for income tax purposes, they will be allowed additional deduction to the extent such income is used for provisioning of their NPAs. Government of India has since finalised the scheme and identified 19 securities for the buyback. The detailed scheme has been announced vide RBI Press Release No. 2003-04/ 74 dated 17 July 2003.

2. Some banks might have included the identified securities in 'Held to Maturity' (HTM) category. In terms of extant instructions issued to banks vide Circular No. DBOD. BP. BC. 32/ 21.04.048/ 2000-2001 dated 16 October 2000, profit on sale of investments in HTM category should be first taken to the Profit & Loss Account and thereafter be appropriated to the Capital Reserve Account. However, with a view to enabling banks to take benefit of the structure of tax incentives for the premium received under the buyback scheme, it has been decided to exempt banks from the requirement of appropriating the profit on sale of securities from HTM category to 'Capital Reserve Account', as a one time measure, only in respect of the identified securities which are sold to the Government of India under the above scheme of Government of India's Debt Buyback Programme.

3. Please acknowledge receipt.

Yours faithfully,

(B. Mahapatra)
Chief General Manager