September 2, 2004

RBI/2004-05/157

DBOD.No.BP.BC.37/ 21.04.141/2004-05

**All scheduled commercial banks
(excluding RRBs)**

Dear Sir,

**Prudential norms on classification of
investment portfolio of banks**

Please refer to our Master Circular DBOD.No.BP.BC.11/21.04.048/ 2004-05 dated July 17, 2004.

Representations have been received from banks that the existing guidelines of classification of investments should be reviewed with a view to bringing them in alignment with international practices and current state of risk management practices in India, taking into account the unique requirement of maintenance of statutory reserve requirement of 25% of Demand and Time Liabilities (DTL) under Section 24 of the Banking Regulations Act, 1949. Consequently, the Reserve Bank of India is setting up an Internal Group to review the existing guidelines and the Report of the Group will be discussed in the Standing Committee on Financial Regulation. In the meantime, it has been decided as under :

(i) Banks may exceed the present limit of 25 per cent of total investments under HTM category provided
   a) the excess comprises only of SLR securities, and
   b) the total SLR securities held in the HTM category is not more than 25 per cent of their DTL as on the last Friday of the second preceding fortnight.

(ii) To enable the above, as a one time measure, banks may shift SLR securities to the HTM category any time, once more, during the current accounting year. Such shifting should be done at the acquisition cost/ book value/ market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer should be fully provided for. The non-SLR securities held as part of HTM may remain in that category. No fresh non-SLR securities are permitted to be included in the HTM category.

All other prudential norms applicable to securities included under HTM category shall continue to apply.

Yours faithfully,

(C.R.Muralidharan)
Chief General Manager-in-Charge