RBI/2005-06/55
RPCD.CO.RF.BC.14/07.02.03/2005-06

July 13, 2005

All State and District Central Co-operative Banks

Dear Sir,

Investment portfolio of State and District Central Co-operative Banks (SCBs/DCCBs)- Classification and valuation of investments

Please refer to our circular RPCD. No. RF . BC 17/A.4-92/93 dated September 4, 1992.

2. As per extant instructions, banks are allowed to shift their investments in SLR Securities from 'current' category to 'permanent' category with the approval of the Board of Directors and depreciation, if any, has to be fully provided for.

3. In view of the representations received from a few SCBs and the Federation of SCBs on account of difficulties being faced by SCBs/DCCBs in meeting the provisioning requirements, the matter has been reviewed, and it has been decided to relax as a very special case, the above provisioning requirements as under:

Scheduled SCBs

Scheduled SCBs may work out the provisioning requirement on account of shifting of securities from 'current' category to 'permanent' category and amortize the same over a maximum period of five years commencing from the accounting year ended March 31, 2005 with a minimum of 20 per cent of such amount, each year.

Non Scheduled SCBs and all DCCBs

Shifting of securities from 'current' category to 'permanent' category by non-scheduled SCBs/DCCBs may be done at book value, subject to the following conditions:

i) In case the book value is higher than the face value, the difference between the book value and the face value i.e. the premium, may be amortized in equal instalments over the period remaining till maturity. If the security was obtained at a discount to face value, the difference should be booked as profit only at the time of maturity of the security.

ii) The securities transferred under this special dispensation should be kept separately under the 'permanent' category and should not be transferred back to the 'current' category in future.

iii) In normal course, such securities under ‘permanent’ category should not be sold in the market and are to be redeemed on maturity only. However, in case of exceptional circumstances, if such securities are to be sold, profit on sale of investments in this category should be first taken to the Profit & Loss Account and thereafter be appropriated to the ‘Capital Reserve ’. Loss on sale will be recognized in the Profit & Loss Account in the year of sale.

iv) Banks are advised to build up sufficient provisions and should adhere to extant investment norms without any relaxations by 31.03.2009.

4. It is further advised that the above relaxation is a <u>one-time measure</u> for the accounting year 2004-05 and for all future fresh investments made on or after 01.04.2005, existing guidelines may continue to be followed. Also, the banks are not allowed to write back provisions already made on investments as on 31.03.2004.

5. The contents of this circular may be placed before the Board of your bank.

6. Please acknowledge receipt to our concerned Regional Office.

Yours faithfully,

(C.S.Murthy)
Chief General Manager In-Charge