RBI/2005-06/341

UBD (PCB).BPD. Cir. 41 /16.20.000/2005-06

March 29, 2006

The Chief Executive Officers of all
Primary (Urban) Co-operative Banks

Dear Sir/ Madam,

Investment portfolio of Urban Co-operative Banks (UCBs) - Classification and Valuation of Investments

As you are aware, as per the extant instructions, the primary (urban) cooperative banks are allowed to shift securities from AFS/HFT to HTM category and vice versa once at the beginning of the year. It has been represented by the Federations of UCBs that the banks were facing difficulties in meeting the provisioning requirements as a result of a further fall in the prices of securities.

2. In this context, it is clarified that as advised in our circular UBD.PCB. No.16/16.20.00/2004-05 dated September 2, 2004, banks are permitted on an ongoing basis to exceed the limit of 25 per cent of their total investments under HTM category provided,

a) the excess comprises only of SLR securities

b) the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

3. Further taking into consideration the representations received it has been decided to allow further relaxations as under:

a) At present the banks are allowed to shift securities from and to HTM category once at the beginning of the year. It has been decided that as a special case the banks may shift securities from and to HTM once more on or before March 31, 2006.
b) In terms of circular UBD (PCB). Cir.41/16.20.00/2004-05 dated March 28, 2005 Scheduled UCBs were required to shift securities to HTM at

the acquisition cost/book value/ market value on the date of transfer, whichever is the least. In terms of the above referred circular, the UCBs were required to crystallize the provisioning requirement arising on account of such shifting of securities from HFT/AFS categories to the HTM category and amortize the same over a maximum period of five years commencing from the accounting year ended 31.03.2005, with a minimum of 20 % of such amount, each year.

c) It has now been decided that where the market value is lower than the face value, the provision required would be the difference between book value and face value. Further, the provisioning may be made over the remaining period to maturity instead of five years. It may, however be noted that, if the security was acquired at a discount to face value i.e. the book value is lower than the face value, the difference should be booked as profit only at the time of maturity of the security as hitherto.

d) The revised valuation norms outlined in para (c) above will apply only to transfers to HTM made during the current financial year

e) In case as a result of valuation as above the provision already held by the bank is rendered surplus, the same should not be taken to the Profit and Loss account.

4. Please acknowledge receipt to the concerned Regional Office of the Reserve Bank of India.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager-in-Charge