



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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February 01, 2011

**The CEOs of select All-India Term Lending and Refinancing Institutions
(Exim Bank, NABARD, NHB and SIDBI)**

Dear Sir,

**Recognition of Permanent Diminution in the Value of Investments in Banks'
Subsidiaries / Joint Ventures**

In terms of para 14 of Annexure to circular DBS.FID.No.C.9/01.02.00/2000-01 dated November 9, 2000 on 'Guidelines for Classification and Valuation of investments ', FIs are required to recognise any diminution, other than temporary, in the value of their investments in subsidiaries / joint ventures which are included under Held to Maturity category and provide therefor. However, in the absence of any specific instructions on the method of assessment / measurement of permanent diminution, it has been observed that Banks/FIs are not making any attempt to determine whether there is any permanent diminution in their strategic equity investments held under HTM or AFS categories.

2. The need to determine whether impairment has occurred is a continuous process and the need for such determination will arise in the following circumstances:

(a) On the happening of an event which suggests that impairment has occurred. This would include:

(i) the company has defaulted in repayment of its debt obligations.

(ii) the loan amount of the company with any bank/FI has been restructured.

(iii) the credit rating of the company has been downgraded to below investment grade.

(b) When the company has incurred losses for a continuous period of three years and the net worth has consequently been reduced by 25% or more.



(c) In the case of new company or a new project when the originally projected date of achieving the breakeven point has been extended i.e., the company or the project has not achieved break-even within the gestation period as originally envisaged.

3. When the need to determine whether impairment has occurred arises in respect of a subsidiary, joint venture or a material investment, the FI should obtain a valuation of the investment by a reputed / qualified valuer and make provision for the impairment, if any.

4. These guidelines would be applicable with immediate effect.

Please acknowledge receipt.

Yours faithfully,

(B. Mahapatra)
Chief General Manager-In-Charge