RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2010-11/172

DBOD.FID.FIC.5/01.02.00/2010-11 August 18, 2010

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

Dear Sir

Sale of Investments held under Held to Maturity (HTM) category

In terms of our Master Circular No.DBOD.FID.FIC.3/01.02.00/2010-11 dated July 1, 2010 on 'Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by FIs', securities acquired by FIs with the intention to hold them up to maturity may be classified under Held to Maturity (HTM) category. FIs are, however, allowed to shift investments to/from HTM with the approval of the Board of Directors once a year. Such shifting is normally allowed at the beginning of the accounting year and no further shifting to/from HTM is allowed during the remaining part of that accounting year.

2. In this connection, it has been observed that many banks are resorting to sale of securities held under HTM category, that too frequently, to take advantage of favourable market conditions and to book profits. It needs to be reiterated that securities under HTM category are intended to be held till maturity and accordingly are not required to be marked to market.

3. In order to discourage any such practice among FIs and for sake of uniformity, it has been decided that if the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, FIs should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value

for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in FIs' audited Annual Financial Statements.

4. These guidelines come into force with immediate effect.

Yours faithfully

(Vinay Baijal)
Chief General Manager