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Reserve Bank of India (Rural Co-operative Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025

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In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 ('BR Act'), read with section 56 thereof, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, the RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby issues the Directions hereinafter specified.

Chapter I: Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Rural Co-operative Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025.
2. These Directions shall come into effect from the date of issue.

B. Applicability

3. These Directions shall be applicable to Rural Co-operative Banks (hereinafter collectively referred to as 'RCBs' and individually as 'RCB') operating in India.

Explanation: In this context, rural co-operative banks shall mean State Co-operative Banks and Central Co-operative Banks, as defined in the National Bank for Agriculture and Rural Development Act, 1981.

C. Definitions

4. For the purpose of these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:
 - (1) **'Current or Valid Credit Rating'** for the purpose of determining rated security means a credit rating granted by a credit rating agency in India, registered with the Securities and Exchange Board of India (SEBI) and fulfilling the following conditions:
 - i The credit rating letter and rating rationale from the credit rating agency shall preferably be part of offer document.
 - ii The credit rating letter shall not be more than one month old and rating rationale shall not be more than one year old from the date of opening of issue.



- iii In the case of secondary market acquisition, the credit rating of the issue shall be in force and confirmed from the website of the respective credit rating agency.

(2) '**Listed Security**' is a security which is listed on an exchange.

(3) '**Rated Security**' means a security which carries current or valid credit rating.

(4) '**Unrated Securities**' means securities which do not have a current or valid credit rating.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act (As applicable to Co-operative Societies), the Reserve Bank of India Act (RBI Act), rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.



Chapter II: Role of the Board

6. The Board of Directors (Board) shall approve the Investment Policy of an RCB as specified in [paragraph 14\(1\)](#).
7. The Board shall approve the shifting of investments to / from the Permanent Category as specified in [paragraph 28](#).
8. The Board shall be responsible to ensure that appropriate risk management systems are in place for capturing and analysing the risk in respect of non-SLR investments and for taking remedial measures in time as specified in [paragraph 81](#).
9. The Board shall review the following aspects of non-SLR investment at least on a half yearly interval as specified in [paragraph 82](#).
10. The Board shall approve and conduct an annual review of the panel of brokers with whom an RCB may undertake transactions as specified in [paragraph 101](#).
11. The Board shall be informed post facto of any breach of the upper aggregate contract limit for individual brokers as specified in [paragraph 103\(4\)](#).
12. The Board shall review the investment portfolio of an RCB on a half-yearly basis as on March 31st and September 30th, and ensure that the same is placed before it within two months, i.e., by end-May and end-November respectively, as specified in [paragraph 109](#).
13. The Board shall approve any decision of an RCB to build up a higher percentage of IFR up to 10 per cent depending on the size and composition of its portfolio, as specified in [paragraph 115\(2\)](#).



Chapter III: General Guidelines

A. Investment Policy

14. An RCB shall undertake investment activities as per the terms and conditions specified in these Directions.
 - (1) An RCB shall adopt a comprehensive Investment Policy duly approved by the Board.
 - (2) The Investment Policy shall, at the minimum, include:
 - i The investment criteria and objectives to be achieved while undertaking investment transactions, keeping in view the various regulatory / statutory guidelines and the RCB's own internal requirements.
 - ii Securities in which investments can be made by an RCB.
 - iii The authority designated to put through deals.
 - iv The procedure for obtaining the sanction of the appropriate authority and putting through deals.
 - v Adherence to various prudential exposure limits including quantity (ceiling) and quality of each type of security to be held on its own investment account.
 - vi Policy regarding internal control mechanism, accounting standards, audit, review, dealings through brokers, systems for management of various risks, guidelines for valuation of the portfolio, and the reporting systems.
 - vii Proper risk management systems for making investment in non-SLR securities which shall include entry-level minimum credit ratings / quality standards and industry-wise, maturity-wise, duration-wise, and issuer-wise limits to mitigate the adverse impact of concentration and liquidity risk.

B. General Instructions

15. An RCB shall not undertake any transactions on behalf of Portfolio Management Scheme (PMS) clients.



16. Investment proposals shall be subjected to same degree of credit analysis as any loan proposal, irrespective of the fact that the proposed investments may be in rated securities. An RCB shall make its own internal credit analysis and credit rating even in respect of rated issues and shall not entirely rely on the ratings of external credit rating agencies.
17. An RCB shall ensure robust internal credit rating systems, including a mechanism for regular (quarterly or half-yearly) tracking of the financial position of the issuer to ensure continuous monitoring of the rating migration of the issuers / issues.
18. An RCB shall settle the transactions in securities as per procedure prescribed in notifications / directions / guidelines issued by the concerned regulator.
19. An RCB shall hold its investments in securities only in dematerialised form.



Chapter IV: Classification of Investments

A. Categorization of Investments

20. An RCB shall classify its entire investment portfolio (including SLR securities and non-SLR securities) under two categories, viz., 'Current' and 'Permanent'.
21. An RCB shall decide the category of the investment at the time of acquisition and the decision shall be recorded on the investment proposal.

B. Permanent Investments

22. Securities acquired with the intention to hold them up to maturity shall be classified as 'Permanent Investments'.
23. Investments under Permanent Category shall not exceed 50 per cent of an RCB's total investments.

Explanation: The 50 per cent limit stated above shall not be applicable on investments in the Government Securities.

24. Investment in following securities shall be eligible for inclusion under Permanent Category:
 - (1) SLR securities; and
 - (2) Non-SLR securities included under Permanent Category before July 14, 2016.
25. Profit on sale of investments from Permanent Category shall be first taken to the Profit & Loss Account and thereafter shall be appropriated to the 'Capital Reserve Account'. The amount so appropriated shall be net of taxes and amount required to be transferred to statutory reserves. Loss on sale shall be recognised in the Profit & Loss Account.

C. Current Investments

26. Securities acquired and held with the intention of reselling them in the short term shall be classified as 'Current Investments'.

Provided that all investments in non-SLR securities from July 14, 2016, shall be classified under 'Current' category.

27. Profit or loss on sale of investments shall be taken to the income statement.



D. Shifting Among Categories

28. An RCB shall have the option to shift investments to / from Permanent Category with the approval of the Board once a year.

Provided that such shifting shall be done at the beginning of the accounting year. *Provided further that* additional shifting to / from the Permanent Category shall not be done during the remaining part of that accounting year.

29. In cases where market value of a security as on the date of transfer is less than the carrying value in the books, potential losses shall be recognized prior to the transfer of security from Current Category to Permanent Category.



Chapter V: Valuation of Investments

A. Permanent Investments

30. Investments under Permanent Category need not be 'marked to market' and shall be valued at cost.
 - (1) Where the cost price is higher than the face value, the premium shall be amortized over the remaining period of maturity of the security.
 - (2) Where the cost price is less than the face value, the difference shall be ignored and shall not be amortized or taken to income account since the amount represents unrealised gain.
31. An RCB need not provide for depreciation in respect of investments classified under Permanent Category, as such depreciation is not expected to impact the realisable value.

B. Current Investments

32. The individual scrip in the Current Category will be marked to market at monthly or more frequent intervals.
33. The book value of the individual securities would not undergo any change after the revaluation.
34. Securities under Current Category shall be valued scrip-wise and depreciation shall be provided for. Net appreciation, if any, shall be ignored. Net depreciation required to be provided for in any one classification shall not be reduced on account of net appreciation in any other classification. Similarly net depreciation for any classification in one category shall not be reduced from appreciation in similar classification in another category.



Chapter VI: Market Value

The 'market value' for the purpose of periodical valuation of investments included in the Current Category shall be as under:

A. Quoted Securities

35. The 'market value' for the quoted securities shall be the prices declared by the Financial Benchmarks India Pvt. Ltd. (FBIL) in accordance with [RBI circular on 'Taking over of valuation of Government Securities \(G-Sec\) by Financial Benchmark India Pvt. Ltd. \(FBIL\) - valuation of portfolios' dated March 31, 2018.](#) For securities whose prices are not published by FBIL, market price of the quoted security shall be as available from the trades / quotes on the exchanges / reporting platforms / trading platforms authorized by RBI / SEBI and prices declared by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

B. Unquoted SLR Securities

36. Central Government Securities

- (1) Unquoted Central Government Securities shall be valued on the basis of the prices / YTM rates put out by the FBIL.
 - (2) Treasury Bills shall be valued at carrying cost.

37. State Government Securities

State Government Securities shall be valued on the basis of the prices / YTM rates put out by FBIL.

38. Other Approved Securities

Other approved securities shall be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by FBIL.

C. Unquoted non-SLR Securities

39. Debentures / Bonds of AIFIs and PSUs

All debentures / bonds other than debentures / bonds which are in the nature of advance should be valued on the YTM basis. Such debentures / bonds may be



of different ratings. These shall be valued with appropriate mark-up over the YTM rates for Central Government Securities as put out by FIMMDA periodically. The mark-up shall be graded according to the ratings assigned to the debentures / bonds by the rating agencies subject to the following:

- (1) The rate used for the YTM for rated debentures / bonds should be, at least, 50 basis points above the rate applicable to a Government of India bond of equivalent maturity.
- (2) The rate used for the YTM for un-rated debentures / bonds shall not be less than the rate applicable to rated debentures / bonds of equivalent maturity. The mark-up for the un-rated debentures / bonds shall appropriately reflect the credit risk borne by the bank.
- (3) Where interest / principal on the debenture / bonds is in arrears, the provision shall be made for the debentures as in the case of debentures / bonds treated as advances. The depreciation / provision requirement towards debentures where the interest is in arrears or principal is not paid as per due date, shall not be allowed to be set off against appreciation against other debentures / bonds.
- (4) Where the debentures / bond is quoted and there have been transactions within 15 days prior to the valuation date, the value adopted shall not be higher than the rate at which the transaction is recorded on the stock exchange.

40. Share of Co-operative Institutions

If a RCB has regularly received dividends from co-operative institutions, then their shares shall be valued at face value. In a number of cases, the co-operative institutions in whose shares the RCBs have made investments have either gone into liquidation or have not declared dividend at all. In such cases, the RCB shall make full provision in respect of its investments in shares of such co-operative institutions. In cases where the financial position of co-operative institutions in whose shares RCB has made investments is not available, the shares shall be valued at ₹1 per co-operative institution.

41. Units of Mutual Fund



Investments in quoted Mutual Fund Units shall be valued as per stock exchange quotations. Investments in non-quoted Mutual Funds Units shall be valued on the basis of the latest re-purchase price declared by the Mutual Funds in respect of each particular Scheme. In case of funds with a lock-in period, or where repurchase price / market quote is not available, units shall be valued at NAV. If NAV is not available, then these shall be valued at cost, till the end of the lock-in period.

42. Commercial Papers and Certificate of Deposits

Commercial papers and Certificate of Deposits shall be valued at the carrying cost.

43. Zero coupon bonds (ZCBs)

- (1) ZCBs shall be valued in the books at carrying cost which shall be computed by adding the acquisition cost and discount accrued at the rate prevailing at the time of acquisition, which shall be marked to market with reference to the market value.
- (2) In the absence of market value, the ZCBs shall be marked to market with reference to the present value of the ZCBs.

Explanation: The present value of the ZCB may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero-coupon spreads put out by FIMMDA / FBIL. In case the RCB is still carrying the ZCB at acquisition cost, the discount accrued on the instrument shall be notionally added to the book value of the bond, before marking it to market.

44. In respect of investments in security receipts (SRs) and other instruments issued by an Asset Reconstruction Company (ARCs), an RCB shall comply with the requirements of [Reserve Bank of India \(Rural Co-operative Banks – Transfer and Distribution of Credit Risk\) Directions, 2025.](#)



Chapter VII: Investments in Government Securities

A. General Instructions

45. Transactions in Government Securities shall be done through either Subsidiary General Ledger (SGL) account or Gilt account opened with entities eligible to open Constituent Subsidiary General Ledger (CSGL) account with RBI.
46. For the purpose of maintaining Statutory Liquidity Ratio (SLR) required under Section 24 of the Banking Regulation Act, 1949, read with Section 56 thereof, an RCB shall refer to the [Reserve Bank of India \(Rural Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio\) Directions, 2025.](#)
47. While undertaking OTC transactions in Government Securities, an RCB shall seek a scheduled commercial bank, a Primary Dealer (PD), a financial institution, an UCB, an insurance company, a mutual fund, or a provident fund, as a counterparty for its transactions. Preference should be given to direct deals with such counter parties. An RCB should check prices from other banks or PDs with whom it may be maintaining Gilt account.

B. Access of NDS-OM

48. An RCB shall be eligible to access Negotiated Dealing System - Order Matching (NDS-OM) either through direct access or through indirect access in terms of [Reserve Bank of India \(Access Criteria for NDS-OM\) Directions, 2024.](#) An RCB maintaining gilt account may seek access to web-based NDS-OM module through the Primary Member (i.e., entity with which gilt account is maintained) for online trading in Government Securities in the secondary market in terms of [circular FMRD.DIRD.07/14.03.007/2016-17 dated October 20, 2016](#), as amended from time to time.

C. Subsidiary General Ledger (SGL) Account

49. An RCB having an SGL account shall not open / maintain a gilt account with a CSGL account holder unless the RCB is permitted to maintain both SGL and gilt account in terms of the '[Eligibility Criteria and Operational Guidelines for opening and maintaining of Subsidiary General Ledger \(SGL\) Accounts and Constituents' Subsidiary General Ledger \(CSGL\) Accounts'](#) (Notification no.



IDMD.CDD.S788/11.22.001/2021-22 dated September 22, 2021), as amended from time to time.

D. Gilt Account

50. An RCB shall not maintain more than one gilt account.
51. In case an RCB has a gilt account with a bank, the RCB shall open a designated funds account (for all gilt related transactions) with the same bank.
52. In case an RCB has a gilt account with any of the eligible non-banking institutions, the particulars of the designated funds account (with a bank) shall be intimated to that non-banking institution.

E. Settlement of transactions in Government Securities

53. For transactions through SGL / gilt accounts, an RCB shall report / conclude transactions on NDS-OM and clear / settle them through CCIL as central counterparty.
54. The settlement of transactions in Government Securities shall be governed by the instructions issued vide [FMRD.DIRD.06/14.03.007/2014-15](#) dated March 20, 2015, and paragraph 2.7 of [Master Direction - Operational Guidelines for Primary Dealers, 2016](#).
55. Any default in delivery of security / funds in an SGL sale / purchase transaction, even if completed through the securities / funds shortage handling procedure of CCIL, shall be reported to Public Debt Office (PDO), RBI immediately. In case of SGL bouncing, an RCB shall be liable to pay penalties as per [circular IDMD.DOD.17/11.01.01\(B\)/2010-11 dated July 14, 2010](#), as amended from time to time.

F. Investment in Government Security through primary auction

56. An RCB shall have the option to submit bids in the competitive auctions for issue of Government Securities as per guidelines prescribed in [General Notification for Sale and Issue of Government of India Securities \(including Treasury Bills and Cash Management Bills\)](#) issued vide [IDMD.2320/08.01.01/2024-25](#) dated March 27, 2025, as amended from time to time.



57. An RCB shall also have the option to participate through non-competitive bidding facility in auctions of:

- (1) Dated Government of India Securities and Treasury Bills in terms of scheme on '[Auction of Government Securities - Non-competitive Bidding Facility to Retail Investors](#)' issued vide [circular CO.IDMD.GBD\(P\), No.S1242/08.01.001/2021-22, dated November 12, 2021](#), as amended from time to time.
- (2) State Government Securities in terms of scheme on '[Auction of State Development Loans: Non-Competitive Bidding Facility to Retail Investors](#)' issued vide [circular dated IDMD.No.1240/10.18.049/2019-20 dated November 7, 2019](#), as amended from time to time.

G. Repo / Reverse Repo in Government Securities

58. An RCB shall undertake Repo transactions (including reverse repo transactions) subject to guidelines specified in [Repurchase Transactions \(Repo\) \(Reserve Bank\) Directions, 2018](#).

H. Short Sale Transactions

59. An RCB shall not undertake short sale transactions, i.e., it shall not hold an oversold position in any security.

I. Retailing of Government Securities

60. A Scheduled StCB may undertake retailing of Government Securities with non-bank clients, such as provident funds, non-banking financial companies, high net worth individuals, etc., subject to the following conditions:

- (1) It may freely buy and sell Government Securities on an outright basis at the prevailing market prices without any restriction on the period between sale and purchase;
- (2) Retailing of Government Securities shall be on the basis of ongoing market rates / yield curve emerging out of secondary market transactions;
- (3) No sale of Government Securities shall be effected by a bank unless it hold securities in its SGL / CSGL Account;



- (4) Immediately on sale, the corresponding amount shall be deducted by the bank from its investment accounts and also from its SLR assets;
- (5) These transactions shall be looked into by the concurrent / statutory auditors of the bank; and
- (6) The bank shall put in place adequate internal control checks / mechanisms as advised by the RBI from time to time.

J. Trading of Government Securities on Stock Exchanges

61. An RCB shall have the option to undertake transactions in Government Securities through exchanges, in addition to the existing mode of dealing through SGL / CSGL accounts with RBI or gilt accounts with the designated entities.
62. For this purpose, an RCB shall have the option to open a demat account with a bank depository participant (DP) of NSDL / CDSL or with SHCIL.
63. The Board of an RCB shall also ensure that Investment Policy of the RCB provides for operations being conducted in accordance with the norms laid down by RBI / SEBI and the respective exchange.
64. An RCB shall put in place appropriate internal control systems, install enabling IT infrastructure, and adequate risk management systems to cater to exchange trading and settlement. The back-office arrangement shall be able to easily track trading on the NDS-OM / OTC market and on the exchanges for settlement, reconciliation, and management reporting.
65. An RCB shall use only a SEBI registered broker who is authorized by the permitted exchanges (NSE / BSE) to undertake transactions in Government Securities for placing buy / sell orders, subject to the guidelines on transactions done through brokers as provided in paragraphs [95](#) to [103](#) of these Directions. A valid contract note indicating the time of execution shall be obtained from the broker at end of day.
66. All transactions shall be monitored with a view to ensuring timely receipt of funds and securities. Any delay or failure shall be promptly taken up with the exchange / authorities concerned.



67. At the time of trade, securities shall be available with the RCB either in its SGL or in the demat account with depositories.
68. Any settlement failure on account of non-delivery of securities / non- availability of clear funds shall be treated as SGL bouncing and the current penalties in respect of SGL bouncing shall be applicable.



Chapter VII: Investments in non-SLR Securities

Explanation: The provisions of this Chapter are not applicable to a central co-operative bank's investments in the share capital of the state co-operative bank of the state concerned.

A. Non-SLR Instruments

69. An RCB shall have the option to invest in the following instruments under its non-SLR portfolio:

- (1) "A" or equivalent and higher rated corporate bonds;

Provided that in addition to the minimum rating prescribed above and comparable market yields for the residual duration, an RCB shall not invest in deep discount / zero coupon bonds unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government Securities).

- (2) "A2" or equivalent and higher rated Commercial Papers (CPs) and Certificate of Deposits (CDs);

Provided that investments in CDs shall be limited to those issued by a scheduled commercial bank (other than an RRB) and select All-India Financial Institutions that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI. Investment in CDs shall be treated as inter-bank deposits and shall not be reckoned for computing the limit on non-SLR investments prescribed in [paragraph 71](#) below.

- (3) Units of Debt Mutual Funds and Money Market Mutual Funds.

Provided that an RCB shall ensure that it does not have disproportionate exposure in any one scheme of a Mutual Fund or to any one Mutual Fund.

- (4) Equity shares of Market Infrastructure Companies (MICs) for acquiring membership.

Explanation: The MICs eligible for investments by an RCB are Clearing Corporation of India Ltd., National Payments Corporation of India, and Society for World-wide Inter-bank Financial Telecommunication (SWIFT). The list of eligible MICs will be updated from time to time by the RBI.



(5) Share capital of Shared Service Entity (SSE) set up by NABARD for RCBs.

Provided that the investment by an StCB / CCB in the share capital of SSE shall be restricted to five per cent of its owned funds (paid-up share capital and reserves).

(6) Share of co-operative societies situated within its Area of Operation (subject to limits and conditions specified in [paragraph 73](#)).

Explanation: For investment in the share capital of a society situated outside its Area of Operation, RCB should refer to the [Reserve Bank of India \(Rural Co-operative Banks – Miscellaneous\) Directions, 2025](#).

Further, a StCB should refer to the [Reserve Bank of India \(Rural Co-operative Banks – Miscellaneous\) Directions, 2025](#), for investment in the share capital of a society not having the entire state, in which the StCB is registered, as its Area of Operation.

70. An RCB shall not invest in the following non-SLR instruments:

- (1) Perpetual Debt Instruments;
- (2) Units of Mutual Funds, other than units of Debt Mutual Funds and Money Market Mutual Funds;
- (3) Instruments with an original maturity of less than one year, except units of Debt Mutual Funds and Money Market Mutual Funds, CPs, and CDs; and
- (4) Equity of All India Financial Institutions (AIFIs).

B. Prudential Limits

71. Investments in non-SLR securities shall be limited to 10 per cent of the RCB's total deposits as on March 31st of the previous year.

72. Investment in unlisted non-SLR securities shall be subject to a minimum rating prescribed at [paragraph 69\(1\)](#) and [\(2\)](#) above and shall not exceed 10 per cent of the RCB's total non-SLR securities as on March 31st of the previous year.



Provided that investments in non-SLR securities (both primary and secondary market) by a RCB where the security is proposed to be listed in the Exchange(s) shall be considered as investment in listed security at the time of making investment. In case such security is not listed within the period specified between issuance and listing, the same shall be reckoned for the 10 per cent limit specified for unlisted non-SLR securities. In case such investments included under unlisted non-SLR securities lead to a breach of 10 per cent limit, the RCB shall not make further investments in non-SLR securities (both primary and secondary market) till such time its investment in unlisted non-SLR securities comes within the limit of 10 per cent.

73. Investment in shares of co-operative societies shall be subject to the following limits and conditions:

- (1) The total investments of an RCB in the shares of co-operative institutions shall not exceed 2 per cent of its owned funds (paid-up share capital and reserves).
- (2) The investment of an RCB in the shares of any one co-operative institution coming under (1) above shall not exceed 5 per cent of the subscribed capital of that institution.

Explanation: When more than one co-operative bank (UCB or RCB) contribute to the shares in a co-operative society, the limit of 5 per cent of the subscribed capital indicated above shall apply in respect of the investment of all the banks taken together, i.e., the total investment of all the co-operative banks shall be limited to 5 per cent of the subscribed capital of the enterprise concerned.

- (3) An RCB shall invest in the shares of a co-operative society only if the by-laws of the recipient society provide for the retirement of share capital contributed by it.
- (4) The retirement of the share capital contributed by an RCB to the shares of any society shall be completed in 10 equal annual instalments commencing from the financial year immediately following the year in which the concern commences business or production.



74. An RCB shall have the option to exceed the limits prescribed in paragraphs 71, 72, and 73 in respect of following investments:

- (1) Equity shares of Market Infrastructure Companies (MICs) if it becomes necessary to do so for acquiring membership of these entities.
- (2) Shared Service Entity (SSE) set up by NABARD.
- (3) Shares of co-operative societies as permitted under Section 19 of the Banking Regulation Act, 1949, read with Section 56 thereof, i.e.:
 - i shares acquired through funds provided by the State Government for that purpose;
 - ii in the case of a central co-operative bank, the holding of shares in the state co-operative bank to which it is affiliated; and
 - iii shares of non-profit making co-operative societies such as those formed for the protection of mutual interests, (e.g., co-operative banks' association) or for the promotion of co-operative education etc., (e.g., state co-operative union) or housing co-operatives for the purpose of acquiring premises on ownership basis, etc.

75. All non-SLR investments shall be subject to the prescribed prudential single / group counter party exposure limits.

C. Transactions in Commercial Papers (CPs) and Certificates of Deposits (CDs)

76. Investment in CPs shall be as per guidelines given in [Master Direction – Reserve Bank of India \(Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year\) Directions, 2024](#).

77. Investment in CDs shall be as per guidelines given in [Master Direction - Reserve Bank of India \(Certificate of Deposit\) Directions, 2021](#).

D. Trading and Settlement in Corporate Bonds

78. Trades in listed corporate bonds shall be executed as per guidelines issued by SEBI.

79. All the secondary market OTC trades in corporate bonds shall be reported within fifteen minutes of the trade on any of the exchanges.



80. All OTC trades in corporate bonds shall be cleared and settled through the National Securities Clearing Corporation Ltd. (NSCCL), or Indian Clearing Corporation Ltd. (ICCL), or MCX-SX Clearing Corporation Ltd. (MCX-SX CCL) as per the norms specified by the NSCCL, ICCL, and MCX-SX CCL from time to time.

E. Role of Boards

81. The Board shall be responsible to ensure that appropriate risk management systems are in place for capturing and analysing the risk in respect of non-SLR investments and for taking remedial measures in time.
82. The Board shall review the following aspects of non-SLR investment at least on a half yearly interval:
 - (1) Total business (investment and divestment) during the reporting period;
 - (2) Compliance with the prudential limits prescribed by the Board for non-SLR investments;
 - (3) Compliance with the prudential guidelines issued by RBI on Non-SLR investments;
 - (4) Rating migration of the issuers / issues held in the RCB's books and consequent diminution in the portfolio quality; and
 - (5) Extent of non-performing investments in the non-SLR category and adequacy of provisions there against.

F. Other Requirements

83. An RCB shall ensure that credit facilities for activities / purposes precluded by RBI regulations are not financed through investment in non-SLR securities.
84. An RCB shall disclose the details of the issuer composition of non-SLR investments and the non-performing investments, as per [Reserve Bank of India \(Rural Co-operative Banks – Financial Statements: Presentation and Disclosures\) Directions, 2025.](#)
85. An RCB shall not deploy its funds in deposits with or loans to the State Governments as doing so tantamount to indirect loaning to the State Governments which is not the function of co-operative bank.



86. An RCB shall desist from placing its surplus funds as deposits with an Urban Co-operative Bank (UCB) as that tantamount to granting unsecured advances to a UCB.



Chapter VIII: Prudential Systems / Controls

A. Internal Control System

87. An RCB shall establish a robust internal control mechanism in respect of investment transactions and shall, at a minimum, ensure the following:
88. There shall be a clear functional separation of (a) trading, (b) settlement, (c) monitoring and control, and (d) accounting.
89. There shall be a functional separation of trading and back-office functions relating to RCB's own Investment Accounts and Other Constituents (including brokers') Accounts.
90. Deal slips shall be prepared for every transaction entered into. Deal slips shall be serially numbered, properly accounted for and shall contain all the details of the deal such as name of the counterparty, details of security, category (i.e., Current / Permanent) in which it shall be held, amount, price, contract date and time, settlement date, confirmation mode to the counterparty, whether it is direct deal or through a broker, and if through a broker, name of the broker, brokerage payable etc. Back-office shall monitor timely receipt of confirmation from the counterparty, except where the requirement is waived off in terms of [circular IDMD.No.766/10.26.65A/2005-06 dated August 22, 2005](#), and [circular FMRD.FMID.01/14.01.02/2014-15 dated December 19, 2014](#).
91. The books of accounts shall be updated independently, on the basis of vouchers passed, after verification of actual contract notes received from the broker / counterparty and confirmation of the deal by the counterparty.
92. Notwithstanding paragraph 19 of these Directions, securities held in physical form, if any, shall be properly recorded, held under joint custody, and shall be subjected to quarterly verification by persons unconnected with their custody.
93. Balances of Government Securities as per RCB's books shall be reconciled at least at quarterly intervals with the balances in the books of the PDO. If the number of transactions so warrant, the reconciliation should be undertaken more frequently, say monthly. This reconciliation shall be periodically checked by the internal audit department of the RCB.



94. There shall be a system for reporting transactions to Top Management on a weekly basis which shall include the details of transactions in securities, details of SGL bouncing, and a review of investment transactions undertaken during the period.

B. Engagement of Brokers

95. An RCB shall engage brokers on the terms and conditions specified hereunder:
96. The role of the broker shall be restricted to that of bringing the two parties to the deal together. An RCB shall not give power of attorney or any other authorisation to the brokers / intermediaries to deal on its behalf in the money and securities markets.

Explanation: The broker is not obliged to disclose the identity of the counterparty before the conclusion of the deal. However, the same shall be disclosed after it is decided to enter into the transaction to facilitate direct settlement between counterparties.

97. The brokers shall have no role in the process of settlement of deals. The settlement of the deal shall take directly between the counterparties, viz., both fund settlement and delivery of security.
98. An RCB shall maintain a record of broker-wise details of deals put through and brokerage paid.
99. An RCB shall not transact in Government Securities in physical form with any broker.
100. An RCB shall not engage services of any broker in inter-bank transactions.

Provided that the above prohibition shall not apply to an RCB undertaking securities transactions among themselves through members of a recognised stock exchange.

B.1 Empanelment of Brokers

101. An RCB shall, subject to approval of its Board, prepare a panel of approved brokers which shall be reviewed annually, or more often if so warranted.
102. The criteria for empanelment of brokers shall, at the minimum, include the following:



- (1) SEBI Registration;
- (2) Membership of NSE/ BSE for debt market;
- (3) Prior experience and Creditworthiness; and
- (4) Market reputation, and details of regulatory action, if any.

B.2 Prudential Limits for Brokers

103. An RCB shall ensure that aggregate transactions (both purchases and sales) executed through an individual broker do not exceed 5 per cent of total transactions through brokers in a financial year under review, subject to the following conditions:

- (1) The limit shall be observed with reference to the year under review and the RCB shall keep in view the expected turnover of the current year which shall be based on turnover of the previous year and anticipated rise or fall in the volume of business in the current year.
- (2) The limit shall cover both the business initiated by RCB and the business offered / brought by a broker.
- (3) Transactions entered into directly with counterparties, i.e., where no brokers are involved, shall be excluded to arrive at the total transactions through brokers.
- (4) If for any reason it becomes necessary to exceed the aggregate limit for any broker, the RCB shall record in writing the specific reasons for such breach and the Board shall be informed post facto.
- (5) In case of repo transactions both the legs of the deals, i.e., purchase as well as sale shall be included to arrive at the volume of total transactions.
- (6) The limit of 5 per cent shall not apply to transactions through Primary Dealers.



Chapter IX: Audit, Review and Reporting

A. Audit

104. Treasury transactions shall be separately subjected to concurrent audit and the results of their audit shall be placed before the Chief Executive of the RCB once every month.

105. The business done through brokers shall be audited by the same concurrent auditors who audit the treasury operations of the RCB, and the audit report shall be included in the monthly report to the Chief Executive of the RCB.

106. The concurrent audit shall, at the minimum:

- (1) Certify that investments held by the RCB as on the last reporting Friday of each quarter and as reported to the RBI are actually owned / held by it in SGL / CSGL / Gilt account / dematerialised account or in a physical form, where applicable. An RCB not having the system of concurrent audit shall have the above certification furnished by an auditor appointed by Registrar of Co-operative Societies.

Explanation: The above Certificate shall be submitted to concerned Regional Office of NABARD within 30 days from the end of the relevant quarter.

- (2) Scrutinize conformity with broker limits and include excesses observed in the periodical reports.

107. The internal audit shall cover the transactions in securities on an ongoing basis, monitor compliance with the laid down management policies / prescribed procedures and report the deficiencies directly to the Top Management.

108. The internal auditors / internal audit department shall periodically check the reconciliation of SGL / CSGL account balance with PDO, as required in paragraph 93 of these Directions.

B. Review / Reporting

109. An RCB shall undertake a half-yearly review of its investment portfolio as on March 31st and September 30th and place the same before its Board within two



months, i.e., by end-May and end-November. The review shall, at the minimum, cover operational aspects of investment portfolio including reconciliation of SGL / CSGL accounts with PDO, SGL bouncing, amendments made to the Investment Policy, business put through any individual broker or brokers in excess of the limit with the reasons therefor, irregularities observed in all audit reports, position of compliance thereto, and certify adherence to laid down internal Investment Policy and procedures and RBI's guidelines.

110. A return on 'Half-Yearly Review of Investment Portfolio' shall be submitted through the ENSURE portal of NABARD by June 15 and December 15 respectively, in a format (Proforma as per [Annex I](#)) as advised by NABARD.



Chapter X: Accounting and Provisioning

A. Income Recognition

111. An RCB shall recognize income on accrual basis for the following:

- (1) Government Securities and corporate bonds, where interest rates on the instruments are predetermined provided the interest is serviced regularly and is not in arrears.
- (2) Securities of corporate bodies / public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government, where interest rates on the instruments are predetermined provided the interest is serviced regularly and as such is not in arrears.
- (3) Shares of corporate body / co-operative institutions provided the dividend has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.

112. Income from units of mutual funds (debt mutual funds and money market mutual funds) shall be booked on cash basis.

113. In respect of investments in Government Securities and approved securities, an RCB shall not capitalise the broken period interest paid to seller as part of cost but treat it as an item of expenditure under Profit & Loss Account.

Explanation: This accounting treatment does not take into account the tax implications and an RCB shall comply with the requirements of income tax authorities as prescribed.

114. Costs such as brokerage fees, commission or taxes incurred at the time of acquisition of securities under Current Category shall be recognized as expenses, without any accrual.

B. Investment Fluctuation Reserve (IFR)

115. Creation of IFR and Minimum Requirement

- (1) An RCB shall maintain IFR of not less than 5 per cent of its investment portfolio classified under the Current Category.



- (2) An RCB may, at its discretion, build up a higher percentage of IFR up to 10 per cent depending on the size and composition of its portfolio, with the approval of its Board.
- (3) An RCB shall build IFR out of realized gains on sale of investments, and subject to available net profit.
- (4) Accounting Treatment
 - i The provisions held on account of depreciation in the value of investments held under Current Category shall be shown as 'Investment Depreciation Reserve (IDR)'. IDR required to be created in any year shall be debited to the Profit & Loss Account and an equivalent amount (net of tax benefit, if any, and net of consequent reduction in the transfer to Statutory Reserve) or the balance available in the IFR Account, whichever is less, shall be transferred from the IFR Account to Profit & Loss Account.
 - ii In the event that the IDR created on account of depreciation in investments is found to be in excess of the required amount in any year, the excess shall be credited to the Profit & Loss Account and an equivalent amount (net of taxes, if any, and net of transfer to Statutory Reserves as applicable to such excess provision) shall be appropriated to the IFR Account to be utilised to meet future depreciation requirement for investments.
 - iii The amounts debited to the Profit & Loss Account for depreciation provision and the amounts credited to the Profit & Loss Account for reversal of excess provision shall be debited and credited respectively under the head "Expenditure - Provisions & Contingencies". The amounts appropriated from the Profit & Loss Account and the amounts transferred from the IFR to the Profit & Loss Account shall be shown as 'below the line' items after determining the profit for the year.
- (5) IFR shall be eligible for inclusion in Tier 2 capital.



116. Draw-down from IFR

- (1) An RCB may, at its discretion, draw down the balance available in IFR in excess of 5 per cent of its investment in Current Category for credit to the balance of profit / loss as disclosed in the Profit and Loss Account at the end of any accounting year.
- (2) Where the balance in the IFR is less than 5 per cent of its investment in Current Category, a draw down shall be permitted subject to the following conditions:
 - i The drawn down amount is used only for meeting the minimum Tier 1 capital requirements by way of appropriation to free reserves or reducing the balance of loss, and
 - ii The amount drawn down shall not exceed the amount by which the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during the same year.

C. Non- Performing Investment (NPI)

117. An NPI, similar to a non-performing advance (NPA), is one where:

- (1) In respect of debt instruments such as bonds or debentures, where interest / instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.
- (2) Paragraph 117(1) above shall apply mutatis mutandis to preference shares where the fixed dividend is not paid.
- (3) In the case of equity shares, where the investment in the shares of any company is valued at ₹1 per company on account of the non-availability of the latest Balance Sheet, such equity shares shall be classified as NPI.
- (4) If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer shall also be treated as NPI.

118. In respect of securities where interest / principal is in arrears, the RCB should not reckon income on the securities and should also make appropriate provisions for the depreciation in the value of the investment. The RCB should



not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.



Chapter XI: Repeal and Other Provisions

A. Repeal and Saving

119. With the issue of these Directions, the existing Direction, instructions, and guidelines relating to Classification, Valuation and Operation of Investment Portfolio as applicable to Rural Co-operative Banks stand repealed, as communicated [circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025](#). The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

120. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
- (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
- (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

121. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

122. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of



these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Sunil T S Nair)

Chief General Manager



Annex I: Half Yearly Review

(Refer Paragraph 110)

Return name: Half - Yearly Review of Investments Portfolio for the Half- year ended

Due Date: 15 May /15 November

Name of the StCB / CCB: **State:**

Sr. No.	Particulars	Status
1.1	Has the Bank framed Investment Policy?	
1.2	If Yes, indicate the Board Meeting No. which approved the Policy	
1.3	If Yes, date of the said Board meeting	
2.1	Was the Policy revised during the half-year under consideration?	
2.2	If Yes, indicate the Board Meeting No.	
2.3	If Yes, date of the said Board meeting	
2.4	If Yes, brief description of the revisions made (mention RBI / NABARD circular and date, if any, and also the brief description of area / subject revised)	
3.1	Has the Board of Directors approved a panel of brokers for investment transactions?	
3.2	Has the bank conducted any investment transactions with the help of brokers?	
3.3	If Yes, has the bank adhered to the broker-wise limit of 5 per cent of the transactions?	
4	Has the bank made any investments in State Co-operative banks, Primary (Urban) Co-operative Banks, Leasing Finance Companies, Housing Companies, or NBFCs?	
5	Has the bank sold any securities during the period under consideration?	
6	Has the Bank undertaken transactions in securities on behalf of:	
6.1	Portfolio Management Scheme (PMS) clients in its fiduciary capacity	
6.2	Other clients either as custodians of their investments or purely as their Agents	
7	Has the bank subjected its investment transactions to Concurrent Audit?	
8	Has the bank placed the report of the Concurrent Auditor on investment transactions before the Chairman/ CEO every month?	
9.1	Has the bank placed review of its investments before the Board of Directors for this period?	
9.2	If Yes, indicate the Board Meeting No.	
9.3	If Yes, date of the said Board meeting	
10	Whether 100 per cent SLR investments in Govt. Securities?	
11	Whether total non-SLR investments exceeded 10 per cent of the total deposits of a bank as on 31 March of the preceding financial year?	
12	Whether invested in perpetual debt instruments?	
13	Whether invested in PSU Bonds without obtaining permission of RBI?	
14	Whether bank had kept its surplus funds in deposits with PSUs / Companies / Corporations / Co-op. Institutions / UCBs?	
15	Whether the bank had submitted the Quarterly Certificate on Investment to NABARD / RBI?	