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RESERVE BANK OF INDIA

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**Reserve Bank of India (Urban 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, 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 (Urban 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 Primary (Urban) Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as a 'UCB').

Explanation: In this context, urban co-operative banks shall mean Primary Co-operative Banks as defined under Section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

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) **'Approved Securities'** shall have the same meaning as defined in [Reserve Bank of India \(Urban Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio\) Directions, 2025](#).
 - (2) **'Available for Sale'** (AFS) means the category of investment portfolio of a UCB, which does not fall within the HTM or HFT category.
 - (3) **'Carrying Cost'** in the context of zero-coupon discounted instruments such as Treasury Bills, Commercial Papers, Certificate of Deposits, and Zero-Coupon Bonds is the acquisition cost adjusted for the discount accrued at the rate prevailing at the time of acquisition.



- (4) **‘Certificate of Deposit’** shall have the same meaning as defined in [Master Direction – Reserve Bank of India \(Certificate of Deposit\) Directions, 2021](#).
- (5) **‘Corporate Bonds’** mean debt securities which create or acknowledge indebtedness, including debentures, bonds and such other securities of a company, a multilateral financial institution or a body corporate constituted by or under a Central Act or a State Act, whether constituting a charge on the assets of the company or body corporate or not, but does not include debt securities issued by Central Government or a State Government, or such other persons as may be specified by the Reserve Bank, Certificate of Deposit, Commercial Paper, security receipts, and securitised debt instruments.
- (6) **‘Commercial Paper’** shall have the same meaning as defined in [Master Direction – Reserve Bank of India \(Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year\) Directions, 2024](#),.
- (7) **‘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 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.
- (8) **‘Derivative’** shall have the same meaning as assigned to it in Section 45U(a) of the RBI Act, 1934, as amended from time to time.



- (9) **‘Exchange’** means ‘Recognized stock exchange’ and shall have the same meaning as defined in Section 2 (f) of Securities Contracts (Regulation) Act, 1956, as amended from time to time.
- (10) **‘Government Security’** shall have the same meaning as assigned to it in Section 2(f) of the Government Securities Act, 2006, as amended from time to time.
- (11) **‘Held to Maturity’** (HTM) means the category of investment portfolio maintained by a UCB with intention to hold securities upto maturity.
- (12) **‘Held for Trading’** (HFT) means the category of investment portfolio maintained by a UCB with intention to trade in securities by taking advantage of the short- term price / interest rate movements.
- (13) **‘Listed Security’** is a security which is listed on an exchange.
- (14) **‘Quoted Security’** is a security for which market prices are available at exchanges / reporting platforms / trading platforms authorized by RBI / SEBI.
- (15) **‘Rated Security’** means a security which is subjected to a detailed credit rating exercise by a credit rating agency, which is registered with SEBI and shall carry current or valid credit rating.
- (16) **‘Reconstitution’** shall have the same meaning as defined in the [notification IDMD.1762/2009-10 dated October 16, 2009](#), on ‘Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)’.
- (17) **‘Repo’** and **‘Reverse Repo’** shall have the same meaning as defined in Section 45U of RBI Act, 1934, as amended from time to time. For the purpose of these Directions, the word ‘repo’ is used to mean both ‘repo’ and ‘reverse repo’ with the appropriate meaning applied contextually.
- (18) **‘Securities’** shall have the same meaning as defined in Section 2(h) of Securities Contracts (Regulation) Act, 1956, as amended from time to time.
- (19) **‘Security Receipts’** shall have the same meaning as defined in Section 2(1)(zg) of the Securitisation and Reconstruction of Financial Assets and



Enforcement of Security Interest Act, 2002, as amended from time to time.

- (20) **‘Securitised Debt Instrument’** means securities of the nature referred to in Section 2(h)(ie) of the Securities Contracts (Regulation) Act, 1956, as amended from time to time.
 - (21) **‘SGL Bouncing’** shall mean failure of settlement of a government securities transaction on account of insufficiency of funds in the current account of the buyer or insufficiency of securities in the SGL / CSDL account of the seller, maintained with the Reserve Bank.
 - (22) **‘Short Sale’** shall have the same meaning as defined in Short Sale (Reserve Bank) Directions, 2018.
 - (23) **‘Statutory Liquidity Ratio (SLR) Securities’** shall have the same meaning as defined in [Reserve Bank of India \(Urban Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio\) Directions, 2025](#).
 - (24) **‘STRIPS’** (Separate Trading of Registered Interest and Principal of Securities) shall have the same meaning as defined in the [notification IDMD.1762/2009-10 dated October 16, 2009](#), on ‘Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)’.
 - (25) **‘Stripping’** shall have the same meaning as defined in the [notification IDMD.1762/2009-10 dated October 16, 2009](#), on ‘Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)’.
 - (26) **‘Unrated Securities’** means securities which do not have a current or valid rating by a credit rating agency registered with SEBI.
 - (27) **‘When, as and if issued’** (commonly known as ‘when-issued’ (WI)) security means a security as referred to in [When Issued Transactions \(Reserve Bank\) Directions, 2018](#).
5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) or the Reserve Bank of India Act, 1934



and 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 a UCB as specified in [paragraph 20](#).
7. The Board shall approve the shifting of Investments among various categories (viz., HTM, AFS, and HFT) as specified in paragraphs [42](#) to [49](#).
8. The Board shall also ensure that Investment Policy of a UCB provides for operations being conducted in accordance with the norms laid down by Reserve Bank / SEBI and the respective exchange as specified in [paragraph 92](#).
9. The Board shall review the various aspects of non-SLR investment at least on quarterly basis as specified in [paragraph 119](#).
10. The Board shall approve the policy for placement of deposits with other banks and shall review the position at least on a half yearly basis as specified in [paragraph 132](#).
11. The Board shall approve the internal control guidelines for acquisition of non-SLR securities in the secondary market as specified in [paragraph 133\(12\)](#).
12. The Board shall approve and annually review the panel of brokers with whom a UCB may engage in business as specified in [paragraph 135](#).
13. The Board shall be informed post facto about breach of aggregate upper contract limit for individual broker as specified in [paragraph 139\(3\)](#).
14. The monthly reconciliation of the SGL / CSGl account balance with the Public Debt Office (PDO) shall be periodically checked by the internal auditors and placed before the Audit Committee of the Board (ACB) as specified in [paragraph 143](#).
15. The ACB shall review the details of trades on aggregate basis done on the exchanges and any transaction that were 'closed-out' on the exchanges as specified in [paragraph 144](#).
16. The results of internal audit pertaining to investment functions shall be placed before the Board once in every quarter as specified in [paragraph 145](#).



17. A copy of the monthly review of investment transactions, including the details of large transactions shall be put up to the Board once a month, for information as specified in [paragraph 146](#).
18. A half-yearly review (as of March 31st and September 30th) of the investment portfolio shall be placed before the Board within two months, i.e., by end-May and end-November as specified in [paragraph 148](#).
19. With the approval of the Board, a UCB may, at its discretion, build up a higher percentage of Investment Fluctuation Reserve (IFR) depending on the size and composition of its portfolio as specified in [paragraph 153\(4\)](#).



Chapter III: General Guidelines

A. Investment Policy

20. A UCB shall adopt a comprehensive Investment Policy duly approved by the Board. The Investment Policy shall be in accordance with the size, complexity of business, risk management capabilities, human resource, and IT infrastructure, and other such factors relevant for a UCB.
21. The Investment Policy shall, at the minimum, include:
- (1) The investment criteria and objectives to be achieved while undertaking investment transactions, keeping in view the various regulatory / statutory guidelines and a UCB's own internal requirements;
 - (2) Securities in which investments may be made;
 - (3) Derivatives in which a UCB having Authorised Dealer's licence, wherever allowed, can transact;
 - (4) The authority to put through deals;
 - (5) Procedure for obtaining the sanction of the appropriate authority and putting through deals;
 - (6) Adherence to various prudential exposure limits including quantity (ceiling) and quality of each type of security to be held on its own investment account;
 - (7) 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;
 - (8) Nature and extent of investments intended to be made in non-SLR securities, the risk management systems for capturing and analysing the risk parameters, stop-loss limits for holding / divesting the investments, and remedial measures; and
 - (9) 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, issuer-wise,



etc., limits to mitigate the adverse impact of concentration, and liquidity risk.

22. The Investment Policy shall be reviewed at least annually.

B. General Instructions

23. A UCB shall undertake all transactions in securities only on its own investment account. It shall not undertake any transactions on behalf of Portfolio Management Scheme (PMS) clients in its fiduciary capacity, and on behalf of other clients, either as custodian of their investments or purely as their agent.
24. Investment proposals shall be subjected to the same degree of credit risk analysis as any loan proposal.
25. A UCB shall refer to the list of defaulters obtained from Credit Information Companies while taking investment decisions.
26. A UCB 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. The appraisal shall be more stringent in respect of investments in instruments issued by non-borrower customers.
27. A UCB shall ensure robust internal credit rating systems which shall also include building up of a system of 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.
28. A UCB shall settle the transactions in securities and derivatives, wherever allowed, as per procedure prescribed in notifications /directions / guidelines issued by the concerned regulator.
29. A UCB shall hold its investments in securities only in dematerialized form.
30. Unless permitted specifically in these Directions, a UCB shall not hold a short position in any security.



Chapter IV: Classification of Investments

A. Categorization of Investments

31. A UCB shall classify its entire investment portfolio including SLR securities and non-SLR securities under three categories, viz., 'Held to Maturity' (HTM), 'Available for Sale' (AFS), and 'Held for Trading' (HFT).
32. A UCB shall decide the category of the investment at the time of acquisition and the decision shall be recorded on the investment proposals.

B. Held to Maturity (HTM)

33. Securities acquired by a UCB with the intention to hold them up to maturity shall be classified under HTM category.
34. Investments under HTM category shall not exceed 25 per cent of a UCB's total investments.
35. Investments in following securities are eligible for inclusion under HTM category:
 - (1) SLR securities upto the extent permitted.
 - (2) Non-SLR securities included under HTM category before September 18, 2007.
 - (3) Long-term bonds issued by companies engaged in infrastructure activities.

Provided that such bonds shall have minimum residual maturity of seven years at the time of investment.

Provided further that a UCB shall have the option to continue to classify these investments under HTM category even if the residual maturity falls below seven years subsequently.

36. A UCB shall have the option to exceed the limit of 25 per cent of its total investments under HTM category provided the excess comprises of SLR securities. However, the total SLR securities held in the HTM category shall not be more than 25 per cent of a UCB's Net Demand and Time Liabilities (NDTL) as on the last Friday of the second preceding fortnight.



37. Profit on sale of investments from HTM category shall be first taken to the Profit and Loss Account, and thereafter shall be appropriated to the 'Capital Reserve'. The amount so appropriated shall be net of taxes and the amount required to be transferred to Statutory Reserves. Loss on sale shall be recognized in the Profit and Loss Account in the year of sale.

C. Held for Trading (HFT) and Available for Sale (AFS)

38. Securities acquired with the intention to trade by taking advantage of the short-term price / interest rate movements shall be classified under HFT category. The investments classified under HFT shall be sold within 90 days.
39. Securities which do not fall under HTM or HFT categories shall be classified under AFS category.
40. A UCB shall have the option to decide on the extent of investment holdings under AFS and HFT category taking into account various aspects. viz., basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, capital position, etc.
41. Profit or loss on sale of investments in HFT and AFS categories shall be taken to the Profit and Loss Account.

D. Shifting Among Categories

D.1 Shift to / from HTM

42. A UCB shall have the option to shift investments to / from HTM 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 HTM category shall not be done during the remaining part of that accounting year.

43. Transfer of securities from AFS / HFT category to HTM category shall be made at the lower of book value or market value.

Provided that where the market value is higher than the book value at the time of transfer, the appreciation shall be ignored, and the security shall be transferred at the book value.



Provided further that in cases where the market value is lower than the book value, the provision for depreciation held against the security (including the additional provision, if any, required based on valuation done on the date of transfer) shall be adjusted to reduce the book value to the market value and the security shall be transferred at the market value.

44. Transfer of securities from HTM to AFS / HFT category shall be subject to the following conditions:

- (1) Security originally placed under the HTM category at a discount, shall be transferred to AFS / HFT category at the acquisition price / book value.
- (2) Security originally placed under the HTM category at a premium shall be transferred to the AFS / HFT category at the amortised cost.
- (3) Securities shall be immediately re-valued consequent to transfer and resultant depreciation, if any, shall be provided.

Explanation: Regarding [44\(1\)](#) above, a UCB shall not accrue the discount on the securities held under HTM category and such securities shall be held at acquisition cost till maturity.

45. A UCB shall not sell securities held in HTM category. However, if due to liquidity stress, a UCB is required to sell securities from HTM portfolio, it shall do so with the permission of the Board and rationale for such sale shall be clearly recorded.

46. In case of transfers of securities to / from HTM category, a UCB shall make disclosure in the 'Notes to Accounts' to the Financial Statements as provided in [Reserve Bank of India \(Urban Co-operative Banks – Financial Statements: Presentation and Disclosures\) Directions, 2025](#).

D.2 Shift from AFS to HFT or Vice Versa

47. A UCB shall have the option to shift investments from AFS category to HFT category with the approval of the Board.

Provided that in case of exigencies, shifting can be done with the approval of the Chief Executive of a UCB, but shall be ratified by the Board.



48. Shifting of investments from HFT category to AFS category shall not be permitted.

Provided that the above prohibition shall not apply in exceptional circumstances where a UCB is not in a position to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or market becoming unidirectional.

Provided further that such transfer shall be done only with the approval of the Board / Investment Committee.

49. In the case of transfer of securities from AFS to HFT category or vice-versa, the securities need not be re-valued on the date of transfer and the provisions for the accumulated depreciation, if any, held shall be transferred to the provisions for depreciation against the HFT securities and vice-versa.



Chapter V: Valuation of Investments

A. Held to Maturity (HTM)

50. Investments classified under HTM category need not be marked to market (MTM).
51. The investment shall be carried at acquisition cost provided that it is less than the face value of the security.
52. If acquisition cost is more than face value, the premium arising out of difference between face value and acquisition cost shall be amortised over the period remaining to maturity.

Explanation: The book value of the security shall continue to be reduced to the extent of the amount amortised during the relevant accounting period.

B. Held for trading (HFT) and Available for Sale (AFS)

53. The individual securities in the HFT category shall be marked to market at monthly or at more frequent intervals.
54. The individual securities in the AFS category shall be marked to market at quarterly or at more frequent intervals.
55. The book value of individual securities in HFT and AFS categories shall not undergo any change after marking to market.
56. Securities under AFS and HFT categories shall be valued security-wise and depreciation / appreciation shall be aggregated for purpose of arriving at net depreciation / appreciation of investments for each classification, viz., a) Government Securities, b) other approved securities, c) shares, d) corporate bonds, and e) others (to be specified)), separately for AFS and HFT categories. Net depreciation, if any, shall be provided for. Net appreciation, if any, shall be ignored.
57. Net depreciation required to be provided for in any one classification shall not be reduced on account of net appreciation in any other classification.



Chapter VI: Market Value

The 'market value' for the purpose of periodical valuation of investments included in the AFS and the HFT categories shall be as under:

A. Quoted Securities

58. 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

59. 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.

60. State Government Securities

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

61. 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

62. Corporate Bonds

- (1) All debentures / bonds shall be valued on the YTM basis.



- (2) Debentures / bonds shall be valued by applying the appropriate mark-up over the YTM rates for Central Government Securities as put out by FBIL / FIMMDA.
- (3) The mark-up applied shall be determined based on the ratings assigned to the debentures / bonds by the credit rating agencies and shall be subject to the following:
 - i The mark-up shall be at least 50 basis points above the rate applicable to a Central Government Security of equivalent maturity for rated debenture / bonds.
 - ii 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.

Provided that the mark-up for the un-rated debentures / bonds should appropriately reflect the credit risk borne by the UCB.

- iii Where the debentures / bonds are 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 exchanges / trading platforms / reporting platforms authorized by SEBI / RBI.

63. Special Securities issued by the Government of India

The special securities [i.e., Oil Bonds, Fertiliser Bonds, bonds issued to the State Bank of India (during the 2008 rights issue), Industrial Finance Corporation of India Ltd., and Food Corporation of India], which are directly issued by the Government of India, and which do not carry SLR status, shall be valued at a spread of 25 basis points above the corresponding yield on Central Government Securities.

64. Units of Mutual Funds

- (1) Investments in un-quoted mutual funds units shall be valued on the basis of the latest re-purchase price declared by the Asset Management Company in respect of each Scheme.



- (2) In case of funds with a lock-in period or any other fund, where repurchase price / market quote is not available, units shall be valued at Net Asset Value (NAV) of the scheme. If NAV is not available, then these shall be valued at cost, till the end of the lock-in period.

65. Commercial Paper and Certificate of Deposits

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

66. 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 ZCB.

Explanation: The present value of the ZCBs 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 UCB 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.

67. Securities issued by Asset Reconstruction Companies (ARC)

Security Receipts (SRs) / Pass Through Certificates (PTCs) / other securities issued by ARCs, in lieu of transfer of stressed loans, shall be valued as per [Reserve Bank of India \(Urban Co-operative Banks – Transfer and Distribution of Credit Risk\) Directions, 2025](#).

68. Shares of Co-operative Institutions

- (1) Investment in shares of co-operative institutions from which a UCB has regularly received dividends shall be valued at face value.



- (2) A UCB shall make full provision in respect of its investments in shares of co-operative institutions which have either gone into liquidation or have not declared dividend at all.
- (3) In case the latest Balance Sheet of co-operative institutions is not available for more than 18 months, the shares shall be valued at ₹1/- per co-operative institution.

Explanation: This provision shall not be applicable for contributions towards capital of Umbrella Organisation (UO) by a UCB.

69. Equity Warrants arising from Punjab and Maharashtra Co-operative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022
- Equity Warrants shall be valued at a price of ₹1 per warrant. As and when the equity warrants are converted into equity shares, the valuation shall be done at market determined prices.



Chapter VII: Investment in Government Securities

A. General Instructions

70. A UCB can invest / transact in government securities by participating in auctions conducted by RBI (primary issuance), or by participating in secondary market transactions through (i) Negotiated Dealing System - Order Matching (NDS-OM) (anonymous online trading), or (ii) Over the Counter (OTC) and reported on NDS-OM, or (iii) NDS-OM-Web, or (iv) Exchanges.
71. Transactions in government securities shall be done through Subsidiary General Ledger (SGL) account, Gilt account opened with entities eligible to open Constituent Subsidiary General Ledger (CSGL) account with RBI, or dematerialised account with an exchange or depository (NSDL / CDSL).
72. Bank Receipt or similar receipt shall not be issued or accepted by a UCB under any circumstances in respect of transactions in government securities.
73. For the purpose of maintaining Statutory Liquidity Ratio (SLR) required under Section 24 of the Banking Regulation Act, 1949 read with Section 56 thereof, a UCB shall refer to the [Reserve Bank of India \(Urban Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio\) Directions, 2025](#).
74. While undertaking OTC transactions in government securities, a UCB shall seek a scheduled commercial bank, a Primary Dealer (PD), a financial institution, a 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. A UCB should check prices from other banks or PDs with whom a UCB may be maintaining Gilt account.

Explanation: This instruction shall not be applicable for transactions undertaken on screen-based trading system of the exchanges or an approved electronic trading platform.

B. Access to NDS-OM

75. A UCB shall be eligible to access NDS-OM either through direct or indirect access in terms of [Reserve Bank of India \(Access Criteria for NDS-OM\) Directions, 2024](#).



76. An eligible UCB desirous of obtaining direct access to NDS-OM shall apply to Financial Markets Regulation Department (FMRD), RBI.
77. A UCB 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

78. A UCB having an SGL account shall not open / maintain a gilt account with a CSGL account holder unless the UCB 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

79. A UCB having a gilt account shall use its gilt account for transactions in government securities and such accounts shall be maintained in the same bank with whom the cash account is maintained.
80. In case a UCB 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

81. 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 relevant paragraphs of [Master Direction – Operational Guidelines for Primary Dealers](#).
82. 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 submitted to Public Debt Office, RBI immediately. In case of SGL bouncing, a UCB 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.

83. A UCB shall follow 'Settlement Date' accounting for recording purchase and sale of transactions in government securities.

F. Investment in Government Security through primary auction

84. A UCB 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.

85. A UCB shall have the option to participate through non-competitive bidding facility in auctions of:

- (1) Dated Central Government Securities and Treasury Bills in terms of scheme on '[Auction of Government Securities : Non-Competitive Bidding Facility to retail investors](#)' issued vide [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 [IDMD.No.1240/10.18.049/2019-20](#) dated [November 7, 2019](#), as amended from time to time.

G. Short sale in Government Securities

86. A UCB fulfilling the following conditions shall have the option to undertake intra-day short sale in government securities.

- (1) NDS-OM membership;
- (2) Net-worth of ₹25 crore;
- (3) Applicable minimum CRAR;
- (4) Net NPA of not more than 3 per cent;
- (5) Sound risk management practices;



- (6) Concurrent audit of Treasury Operations (as required in [paragraph 140](#) of these Directions); and
- (7) Except as provided in these Directions, a UCB shall adhere to the [Short Sale \(Reserve Bank\) Directions, 2018](#).

H. Transaction in Government Securities on When Issued Basis

87. While undertaking “When Issued” (WI) transactions, a UCB shall adhere to the [When Issued Transactions \(Reserve Bank\) Directions, 2018](#).
88. The accounting treatment of transactions undertaken in WI securities would be as follows:
 - (1) The ‘WI’ security shall be recorded in books as an off - balance sheet item till issue of the security;
 - (2) The off-balance sheet net position in ‘WI’ market shall be marked to market security-wise on a daily basis at the day's closing price of the ‘WI’ security. In case the price of the ‘WI’ security is not available, the value of the underlying security shall be used instead. Depreciation, if any, shall be provided for and appreciation, if any, shall be ignored; and
 - (3) On delivery, the underlying security shall be classified in any of the three categories, viz., ‘Held to Maturity’, ‘Available for Sale’, or ‘Held for Trading’, depending upon the intent of holding, at the contracted price.

I. Value Free Transfer of Securities

89. Value Free Transfer (VFT) in government securities shall be in terms of ‘[Value Free Transfer \(VFT\) of Government Securities - Guidelines](#)’ issued vide IDMD.CDD.No.S930/11.22.003/2021-22 dated October 5, 2021, as amended from time to time.

J. Investment in Government Securities through Exchanges

90. A UCB 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 Reserve Bank or gilt accounts with the designated entities.
91. For this purpose, a UCB shall have the option to open a demat account with a bank depository participant (DP) of NSDL / CDSL or with SHCIL.



92. The Board of a UCB shall also ensure that Investment Policy of the UCB provides for operations being conducted in accordance with the norms laid down by Reserve Bank / SEBI and the respective exchange.
93. A UCB 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.
94. A UCB 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 134 to 139 of these Directions. A valid contract note indicating the time of execution shall be obtained from the broker at end of day.
95. 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.
96. At the time of trade, securities shall be available with the UCB either in its SGL or in the demat account with depositories, except as allowed in paragraph 86 of these Directions.
97. 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.

K. Repo / Reverse Repo in Government Securities

98. Repo transactions (including reverse repo transactions) entered by a UCB shall be subject to guidelines specified in Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018.

L. Retailing of Government Securities

99. A scheduled UCB shall have the option to undertake business of retailing of government securities, provided that:



- (1) Such retailing shall be on outright basis and there shall be no restriction on the period between sale and purchase;
- (2) The retailing of government securities shall be on the basis of ongoing market rates / yield curve emerging out of secondary market transactions; and
- (3) A UCB shall adhere to guidelines issued by RBI on retailing of government securities, from time to time.

M. Separate Trading of Registered Interest and Principal Securities (STRIPS)

100. Stripping / reconstitution of Government Securities shall be subject to the [Guidelines on Stripping / Reconstitution of Government Securities issued vide IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010](#), read with Stripping / Reconstitution in [State Government Securities issued vide IDMD.RD.S390/10.18.060/2025-26 dated June 12, 2025](#), as amended from time to time, provided that accounting and valuation of such transactions shall be done as under:

- (1) STRIPS shall be valued and accounted for as ZCBs and in the manner prescribed in these Directions;
- (2) The discount rates used for valuation of STRIPS at inception shall be market-based. However, in case traded zero-coupon rates are not available, the zero-coupon yields published by FBIL shall be used instead;
- (3) Accounting entries in the SGL accounts as a consequence of stripping / reconstitution, shall be passed at the face value. SGL account of participant placing request for stripping shall be debited by the face value of the government security and shall be simultaneously credited with the aggregate face value of Coupon STRIPS (equal to the aggregate coupon amounts) as well as the face value of Principal STRIPS (equal to the face value of the government security);
- (4) On the day of stripping, the STRIPS shall be recognised in the books of account of the participant at their discounted value and at the same time, the government security in question shall be derecognised. The



accounting treatment for reconstitution shall be exactly the opposite of stripping. The detailed procedure for accounting of STRIPS is given below:

- i The stripping / reconstitution shall not result in any profit or loss. The present value of the STRIPS (coupon as well as principal) discounted using the Zero Coupon Yield Curve (ZCYC) shall be normalized using a factor that will be the ratio of the book value or market value of the security (whichever is lower) to the sum total of the market value of all STRIPS created out of the security.
- ii A UCB can strip eligible government securities held under the AFS / HFT category of its investment portfolio.
- iii In case STRIPS are created from securities held in the HTM portfolio, the securities shall be transferred from the HTM category to the AFS / HFT category as per these Directions. Thereafter, the lower of the book value / market value shall be used for normalizing the market value of individual STRIPS to the book value / market value. Post stripping, the book value / market value of the existing securities shall be derecognized and replaced by the normalized value of STRIPS whose sum total shall exactly equal the book value / market value of the extinguished security (thereby ensuring that there is no profit or loss on account of stripping). Any appreciation, arising due to the shifting of the security from HTM shall be ignored. The same methodology shall be followed for securities that are stripped from the AFS / HFT portfolio.
- iv Before a security is stripped, it shall be marked to market. Appreciation, if any, shall be ignored and depreciation, if any, shall be recognised, if the market value is lower than the book value. Such depreciation shall not be aggregated for the purpose of arriving at net depreciation / appreciation of investment under the AFS / HFT category. The book value / market value of the security, whichever is lower, shall be used to normalise the STRIPS.



- v Normalisation principle, on stripping / reconstitution shall be applied on the clean price of the security (without considering the accrued interest) as the accrued interest is booked as income / expenditure.
- vi Normalisation shall also be applied in the case of reconstitution (even when STRIPS are acquired from the market).
- vii The book value of the STRIPS (ZCBs) shall be valued and marked to market as per these Directions. Accordingly, the book value of the STRIPS shall be marked up to the extent of accrued interest before MTM.



Chapter VIII: Investment in non-SLR Securities

A. Non-SLR Instruments

101. A UCB 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, a UCB shall not invest in deep discount bonds / ZCBs unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / government securities;

- (2) "A2" or equivalent and higher rated Commercial Papers (CPs), and Certificate of Deposits (CDs);
- (3) Units of Debt Mutual Funds and Money Market Mutual Funds;

Provided that a UCB shall ensure that it does not have disproportionate exposure in any one mutual fund scheme of an Asset Management Company (AMC) or to mutual fund schemes of any one AMC.

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

Explanation: The MICs eligible for investments by a UCB are Clearing Corporation of India Ltd., National Payments Corporation of India, and Society for Worldwide Interbank Financial Telecommunication (SWIFT).

- (5) Equity shares of Umbrella Organization of UCB sector for acquiring membership;
- (6) SRs / PTCs / other securities issued by ARCs received as consideration towards transfer of stressed loans in terms of provisions of [Reserve Bank of India \(Urban Co-operative Banks – Transfer and Distribution of Credit Risk\) Directions, 2025](#). A UCB shall not make any direct investment in the SRs / PTCs / other securities issued by ARCs;
- (7) Equity shares of concerned Central Co-operative Bank (CCB) and State Co-operative Bank (StCB); and



- (8) Share of co-operative societies situated within its area of operation (subject to limits and conditions specified in [paragraph 106 of these Directions](#)).

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

102. A UCB 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) Shares of bodies or organizations other than in the co-operative sector, unless specifically permitted by RBI.

103. Acquisition / sale of non-SLR investments in secondary market may be undertaken with scheduled commercial banks, PDs, mutual funds, pension / provident funds, and insurance companies.

B. Prudential Limit

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

105. Investment in unlisted non-SLR securities shall be subject to a minimum rating prescribed at paragraphs [101\(1\)](#) and [101\(2\)](#) above and shall not exceed 10 per cent of the UCB'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 UCB where the security is proposed to be listed on 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 the 10 per cent limit, a UCB 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.

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

- (1) The total investments of a UCB 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 a UCB 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) contributes 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 should be limited to 5 per cent of the subscribed capital of the enterprise concerned.

- (3) A UCB shall invest in the shares of a co-operative society only if the bye-laws of the recipient society provide for the retirement of share capital contributed by it; and
- (4) The retirement of the share capital contributed by an UCB 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.

107. A UCB shall have the option to exceed the limits prescribed in paragraphs 104, 105, and 106 in respect of the following investments:

- (1) Equity shares of Market Infrastructure Companies (MICs), Umbrella Organization (UO) of UCB Sector, and CCBs / StCBs, if it becomes necessary to do so for acquiring membership of these entities;



- (2) 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 the holding of shares in the central co-operative bank to which it is affiliated or in the state co-operative bank of the state in which it is registered; 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 to accommodate their offices, etc.
- (3) Investments in SRs / PTCs / other securities as referred in [paragraph 101\(6\)](#) of these Directions; And
- (4) PNCPS and Equity Warrants arising from Punjab and Maharashtra Co-operative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022.

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

C. Repo in Corporate bonds

109. A scheduled UCB, fulfilling the following conditions, shall be eligible to undertake repo transactions in corporate bonds:

- (1) Applicable minimum CRAR plus 1 per cent;
- (2) Gross NPA of less than 5 per cent;
- (3) Continuous record of profits during the previous three financial years;
- (4) Sound risk management practices; and
- (5) Concurrent audit of the Investment portfolio (as required in [paragraph 140](#) of these Directions).



110. While undertaking repo transactions, an eligible UCB shall adhere to instructions given in [Repurchase Transactions \(Repo\) \(Reserve Bank\) Directions, 2018](#).

111. The repo transactions in corporate bonds shall be undertaken only with scheduled commercial banks / PDs and not with other market participants.

Provided that the instruction in [paragraph 111](#) above shall not be applicable for transactions undertaken on the screen-based trading system of the exchanges or an approved electronic trading platform.

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

112. 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](#).

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

E. Trading and Settlement in Corporate Bonds

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

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

116. 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.

F. Other requirements

117. A UCB shall ensure that credit facilities for activities / purposes precluded by RBI regulations are not financed through investment in non-SLR securities or placement of deposits.



118. A UCB shall disclose the details of the issuer-wise 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](#).

G. Role of Boards

119. The Board shall review the following aspects of non-SLR investment at least at quarterly intervals:

- (1) Total business (investment and divestment) during the reporting period;
- (2) Compliance with prudential limits prescribed by the Board for non-SLR investment;
- (3) Compliance with the prudential guidelines issued by RBI on non-SLR investment;
- (4) Rating migration of the issuers / issues held in the UCB'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.



Chapter IX: Placement of Deposits with other banks / institutions

A. Placement / acceptance of Deposits

120. A scheduled UCB fulfilling the criteria provided in [paragraph 127](#) of these Directions is permitted to accept deposits from a scheduled / non-scheduled UCB.

Provided that the deposits accepted by a permitted scheduled UCB from a scheduled UCB shall be part of an arrangement for providing specific services to the latter UCB such as acting as the sponsor bank for clearing purposes, DD arrangement, CSGF facility, currency chest facility, foreign exchange transactions, remittance facility, and non-fund based facilities like bank guarantee (BG), letter of credit (LC), etc.

Provided further that a scheduled UCB shall not accept deposits from a scheduled UCB which are in the nature of investment.

121. A non-scheduled UCB fulfilling the criteria provided in [paragraph 127](#) of these Directions is permitted to accept deposits from a non-scheduled UCB.

Provided that the deposits accepted by a permitted non-scheduled UCB from another non-scheduled UCB shall be part of an arrangement for providing clearing and / or remittance facility to the latter UCB.

Provided further that a non-scheduled UCB shall not accept deposits from another non-scheduled UCB which are in the nature of investment.

122. A UCB shall not place deposits with public sector undertakings / companies / corporations / co-operative institutions (other than a co-operative bank).

123. A UCB shall not place deposits with State Governments by way of deposits in treasury savings accounts.

B. Prudential Limits

124. **Inter-bank (gross) exposure limit:** The total amount of deposits placed by a UCB with other banks (inter-bank) for all purposes including call money / notice money, and deposits, if any, placed for availing clearing facility, CSGF facility, currency chest facility, remittance facility, and non-fund based facilities like Bank Guarantee (BG), Letter of Credit (LC), etc., shall not exceed 20 per cent



of its total deposits as on March 31st of the previous year. The balances held in deposit accounts with a commercial bank, a scheduled UCB, a State Co-operative Bank, a Central Co-operative Bank and investments in CDs issued by a commercial bank, being inter-bank exposures, shall be included in this 20 per cent limit.

125. **Inter-bank counter party limit:** Within the prudential inter-bank (gross) exposure limit prescribed in [paragraph 124](#) above, deposits placed by a UCB with any single bank shall not exceed 5 per cent of its total deposits as on March 31 of the previous year.
126. **Inter-UCB Deposit limit:** The total inter-UCB deposits accepted by a UCB shall not exceed 10 per cent of its total deposits as on 31st March of the previous financial year.

C. Acceptance of Deposits

127. As per [paragraph 120](#) and [121](#) above, a UCB fulfilling the following criteria shall have the option to accept deposits from other UCBs:
- (1) Applicable minimum CRAR plus 1 per cent;
 - (2) Gross Non Performing Assets (NPAs) of less than 7 per cent and Net NPAs of not more than 3 per cent;
 - (3) Net profit for at least three out of the preceding four years subject to it not having incurred a net loss in the immediately preceding year;
 - (4) No default in the maintenance of CRR / SLR during the preceding financial year;
 - (5) Sound internal control system with at least two professional directors on the Board; and
 - (6) Core Banking Solution (CBS) fully implemented.
128. A UCB which has accepted deposits from other UCBs but subsequently fail to meet the criteria provided in [paragraph 127](#) above shall phase out the deposits as under:



- (1) 10 per cent of deposits by March 31st of the financial year in which the UCB became ineligible to accept such deposits, and 40 per cent, 70 per cent, and 100 per cent by the end of the following financial years;
- (2) During the phase-out period, such a UCB shall not accept further deposits from other UCBs and shall neither open new deposit accounts of any UCB. The renewal of existing deposits is allowed subject to compliance with the phase out plan mentioned above; and
- (3) In case the concerned UCB again attains the criteria prescribed in [paragraph 127](#), it shall be eligible to accept deposits from other UCBs and shall not be required to implement the phase out plan;

D. Provisioning on inter-bank exposure

129. The inter-bank exposures arising from deposits placed by a UCB with a UCB under All-inclusive Directions (AID) and the non-performing exposures arising from discounted bills drawn under LCs issued by a UCB under AID shall be fully provided within five years at the rate of 20 per cent annually. Further, the interest receivable on such deposits shall not be recognised as income by the UCB.
130. In case a UCB chooses to convert such deposits into long term perpetual debt instruments (e.g., Innovative Perpetual Debt Instrument - IPDI) which may be recognised as capital instrument under a scheme of restructuring / revival of a UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.

Explanation: With reference to Punjab and Maharashtra Co-operative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022, UCBs shall continue to make provisions on inter-bank exposures arising from outstanding uninsured deposits, as per paragraph 129 of these Directions, until the actual allotment of Perpetual Non-Cumulative Preference Shares (PNCPS) / Equity Warrants. After the allotment of PNCPS / Equity Warrants, the provisions made on exposures arising from deposits shall be reversed only if such provisions are in excess of loss, if any, due to valuation treatment of PNCPS and Equity Warrants. No provisions need to be made on investment in Equity Warrants. The UCB shall fully provide for its investments in PNCPS.



Further, the UCB is allowed to spread the provisions for its investments in PNCPS, net of extant provisions made on exposures arising from outstanding uninsured deposits, equally over two financial years such that the entire loss is fully provided for by March 31, 2024.

131. Further, in case a UCB is facing difficulty in withdrawal of deposits from a weak State Co-operative Bank / Central Co-operative Bank, it shall make provision to the extent of 10 per cent per annum on its exposure to such State Co-operative Bank / Central Co-operative Bank. The interest receivable on such deposits shall not be recognised as income by the UCB.

E. Policy for Placement of Deposits

132. For placement of deposits with banks, a UCB shall formulate a policy, keeping in view the prudential limits provided in paragraphs 124 to 126 above, taking into account its funds position, liquidity and other needs, the cost of funds, expected rate of return and interest margin on such deposits, the counter party risk, etc., and place it before the Board. The Board shall review the position at least at half yearly intervals.



Chapter X: Prudential Systems / Controls

A. Internal Control System

133. A UCB shall establish a robust internal control mechanism in respect of investment transactions and shall, at a minimum, ensure the following:

- (1) There shall be a clear functional separation of (i) trading, (ii) settlement, (iii) monitoring and control, and (iv) accounting.
- (2) There shall be a functional separation of trading and back-office functions relating to the UCB's own Investment Accounts, and other Constituents accounts, if any.
- (3) All transactions shall be monitored to see that delivery takes place on settlement day. The fund account and investment account shall be reconciled on the same day before close of business.
- (4) 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, 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](#).
- (5) 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.
- (6) Checks and balances such as periodic reconciliation of the investment book not later than once a quarter, procedure for recording, verification and passing vouchers, contract verification, valuation of portfolios, monitoring of prudential limits and risk limits, and monitoring of cancelled deals shall be put in place. Processes and controls for compliance with



legal and regulatory requirements of reporting deals on various platforms shall be put in place.

- (7) Notwithstanding [paragraph 29](#) 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.
- (8) SGL / CSGL account balance shall be reconciled with the balances in the books of PDO at least at monthly intervals. Similarly, certificates shall be obtained at quarterly / half-yearly intervals in respect of securities lodged with other institutions. If the number of transactions so warrant, the reconciliation shall be undertaken at more frequent intervals.
- (9) A UCB shall ensure that the stockbrokers as directors on its Board or in any other capacity, do not involve themselves in any manner with the Investment Committee or in the decisions about making investments in shares, etc., or advances against shares.
- (10) Transactions in money market instruments (call / notice / term money, CPs, CDs, repo in corporate bonds and government securities etc.), derivatives (wherever allowed), and other instruments shall be undertaken as per instructions issued by the RBI.
- (11) A UCB shall adhere to the FIMMDA code of conduct while executing trades in government securities on NDS-OM and in the OTC market.
- (12) A UCB shall formulate internal control guidelines for acquisition of non-SLR securities in the secondary market duly approved by its Board.

B. Engagement of Brokers

134. Engagement of the services of the brokers shall also meet the following terms and conditions:

- (1) A UCB shall not undertake any purchase / sale transactions with broking firms or other intermediaries on principal-to-principal basis.
- (2) A UCB engaging services of a broker shall ensure that the role of the broker shall be restricted to that of bringing the two parties to the deal together. A UCB 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.

- (3) The brokers shall not have any role in the settlement process at all, i.e., both the fund settlement and delivery of security shall be done with the counterparty directly.
- (4) A UCB shall not transact in government securities in physical form with any broker.
- (5) A UCB shall not engage the services of any broker in inter-bank securities transactions.

Provided that the above prohibition shall not apply to a UCB undertaking securities transactions with other banks or with non-bank clients through members of NSE, BSE, and MCX-SX.

- (6) A dealing official shall independently check prices in the market or on the exchange screens before placing orders with a broker. A UCB shall not delegate the decision-making processes to brokers.
- (7) A UCB shall ensure that the broker note contains the exact time of the deal and the name of the counterparty. The back-office shall ensure that the deal time on the broker note and the deal ticket is the same. A UCB shall also ensure that the concurrent auditors audit this aspect.

B.1 Empanelment of Brokers

135. A UCB shall prepare a panel of brokers with the approval of the Board, which shall be reviewed at least annually.

136. The criteria for empanelment of brokers shall, at the minimum, include the following:

- (1) SEBI registration;
- (2) Membership of BSE / NSE for debt market;
- (3) Market turnover in the preceding year as certified by the Exchange/s; and



- (4) Market reputation etc.

137. A UCB shall check websites of SEBI / respective exchanges, to check the details of regulatory / penal action, if any, against the broker.

138. A record of broker-wise details of deals put through and brokerage paid shall be maintained.

B.2 Prudential Limits on transaction through brokers

139. A limit of 5 per cent of total transactions through brokers (both purchases and sales) entered into by a UCB during a financial year under review shall be treated as the aggregate upper contract limit for each of the approved brokers, provided the following:

- (1) The limit shall be observed with reference to the year under review and a UCB 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) Transactions entered into directly with counterparties, i.e., where no brokers are involved, shall be excluded to arrive at the total transactions through brokers;
- (3) If for any reason it becomes necessary to exceed the aggregate limit for any broker, a UCB shall record the specific reasons for such breach and the Board shall be informed, post- facto;
- (4) In case of repo transactions both the legs of the transaction, i.e., purchase as well as sale shall be included to arrive at the volume of total transactions; and
- (5) The limit of 5 per cent shall not apply to dealings through PDs.



Chapter XI: Audit, Review and Reporting

A. Audit

140. Treasury functions, viz., investments, funds management including inter-bank borrowings, bills rediscounting, etc., shall be subjected to concurrent audit and the results of audit shall be placed before the Chief Executive of the UCB at monthly intervals.

141. The concurrent audit shall, at the minimum:

- (1) Ensure that in respect of purchase and sale of securities, the concerned department has acted within its delegated powers;
- (2) Ensure that investments held by a UCB, as on the last reporting Friday of each quarter and as reported to RBI, are actually owned / held by it in SGL / CSGIL / Gilt account / demat account or in a physical form, where applicable;
- (3) Ensure that the sale or purchase transactions are done at rates beneficial to the UCB;
- (4) Scrutinize conformity with broker limits and include excesses observed in the periodical reports; and
- (5) Specific observations on the compliance with instructions on transaction in government securities, prudential limits on non-SLR securities, and prudential limits on placement of deposits.

Explanation: Any adverse observations of concurrent auditors shall also be incorporated in the half yearly review of the investment portfolio placed before the Board.

142. 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 Management. In the absence of internal auditors, audit shall be conducted by Chartered Accountants.



143. Monthly reconciliation of SGL / CSGL account balance with PDO, as required in [paragraph 133\(8\)](#) of these Directions shall be periodically checked by the internal auditors and placed before the Audit Committee of the Board (ACB).
144. A UCB shall report on monthly basis to the ACB, giving the details of trades on aggregate basis done on the exchanges and details of any 'closed-out' transactions on the exchanges.
145. The results of internal audit shall be placed before the Board once in every quarter.

B. Review / Reporting

146. The Top Management of a UCB shall actively oversee investment transactions and undertake a monthly review of investment transactions. A copy of the monthly review, including the details of large transactions shall be put up to the Board once a month, for information.
147. A UCB shall forward a quarterly certificate to the PDO, indicating that the balances held in the SGL / CSGL accounts with the PDO have been reconciled and that it has been placed before the ACB as required in [paragraph 143](#) of these Directions.
148. A UCB shall undertake a half-yearly review (as of March 31st and September 30th) of its investment portfolio which shall be placed before the 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, irregularities observed in all audit reports, position of compliance thereto and certify adherence to the laid down internal Investment Policy and procedures and RBI's guidelines.
149. A copy of the half-yearly review report put up to the Board shall be forwarded to the concerned Regional Office of Department of Supervision, RBI by June 15 and December 15 respectively.



Chapter XII: Accounting and Provisioning

A. Income Recognition

150. A UCB 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; and
- (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.

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

152. In respect of investments in government securities and approved securities, a UCB 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 a UCB shall comply with the requirements of income tax authorities as prescribed.

B. Investment Fluctuation Reserve (IFR)

153. Creation of IFR and Minimum Requirement

- (1) A UCB shall make suitable provision for depreciation in the value of investments held under 'AFS' or 'HFT' categories out of its current profits (i.e., charge the same to the Profit & Loss Account) and show the same as 'Investment Depreciation Reserve (IDR)'.
- (2) In the event that IDR created on account of depreciation in investments, as provided in [paragraph 153\(1\) above](#), 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.

- (3) In addition to as provided in paragraph 153(2) above, a UCB shall build IFR out of realised gains on sale of investments, subject to availability of net profit.
- (4) A UCB shall maintain minimum IFR of 5 per cent of the investment portfolio. This minimum requirement shall be computed with reference to investments in HFT and AFS categories. A UCB may, at its discretion, build up a higher percentage of IFR depending on the size and composition of its portfolio, with the approval of its Board.
- (5) A UCB shall transfer maximum amount of the gains realised on sale of investment in securities to the IFR until it meets the minimum IFR requirement of 5 per cent. Transfer to IFR shall be as an appropriation of net profit after appropriation to Statutory Reserve.
- (6) IFR shall be eligible for inclusion in Tier 2 capital.
- (7) A UCB shall ensure that the unrealised gains on valuation of the investment portfolio are not taken to the Income Account or to the IFR.

154. Draw-down from IFR

- (1) A UCB may, at its discretion, draw down the balance available in IFR in excess of 5 per cent of its investment in AFS and HFT for credit to the balance of profit / loss as disclosed in the Profit and Loss Account at the end of any accounting year. Such draw down from IFR shall be utilised to meet the depreciation requirement on investment in securities.
- (2) In the event the balance in the IFR is less than 5 per cent of its investment in AFS and HFT, 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 is not more than the extent to which the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during that year.

(3) Accounting Principles

- i IDR required to be created on account of depreciation in the value of investments held under 'AFS' or 'HFT' categories in any year (as stated in [paragraph 153\(1\)](#) above) 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 The amounts debited to the Profit & Loss Account for depreciation provision and the amount credited to the Profit & Loss Account for reversal of excess provision (as stated in [paragraph 153\(1\)](#) and [153\(2\)](#) above) shall be debited and credited respectively under the head 'Expenditure - Provisions & Contingencies'.
- iii The amounts appropriated from the Profit & Loss Account / to IFR, and the amount transferred from IFR to the Profit & Loss Account to meet depreciation requirement on investments shall be shown as 'below the line' extraordinary item after determining the profit for the year.

Explanation: IFR is created out of appropriation of net profits or reversal of excess IDR as provided in [paragraph 153\(2\)](#) and [153\(3\)](#) above. IDR is a provision created by charging the diminution in value of investments to Profit and Loss Account. While the amount held in IFR shall be shown in the Balance Sheet as such, the amount held in IDR shall be reported as contingent provisions against depreciation in investment.

C. Non-Performing Investments (NPI)

155. In respect of securities where interest / principal is in arrears, a UCB shall not reckon income on the securities and shall also make appropriate provisions for the depreciation in the value of the investment. A UCB shall not set-off the



depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

156. The criterion used to classify an asset as NPA shall be used to classify an investment as Non-Performing Investment (NPI), i.e., an NPI is one where interest / instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.
157. In the event the investment in the shares of co-operative institutions is valued at ₹1 per institution on account of the non-availability of the latest financial position in accordance with [paragraph 68\(3\)](#) of these Directions, those shares shall be reckoned as NPI.
158. If any credit facility availed by the issuer is NPA in the books of a UCB, investment in any of the securities issued by the same issuer shall also be treated as NPI and vice versa.
159. In case of conversion of principal and / or interest into equity, debentures, bonds, etc., such instruments shall be treated as NPA ab initio in the same asset classification category as the loan, if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision shall be made as per the norms.
160. Government Guaranteed Investment
 - (1) Investment in State Government guaranteed securities, shall attract prudential norms for identification of NPI and provisioning, when interest / instalment of principal (including maturity proceeds) or any other amount due to the UCB remains unpaid for more than 90 days.
 - (2) A UCB's investments in bonds guaranteed by Central Government shall not be classified as NPI until the Central Government has repudiated the guarantee when invoked. However, this exemption from classification as NPI is not for the purpose of recognition of income.



Chapter XIII: Repeal and Other Provisions

A. Repeal and Saving

161. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Classification, Valuation and Operation of Investment Portfolio as applicable to Urban Co-operative Banks stand repealed, as communicated vide [circular DOR.RRC.REC.302/33-01-010/2025-26](#) dated [November 28, 2025](#). The instructions and guidelines already repealed shall continue to remain repealed.
162. 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

163. 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

164. 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