



Regd. Office: 2<sup>nd</sup> Flr, United India Bldg, Sir P.M. Marg,  
Next to RBI Amar bldg. – Monetary Museum,

Fort, Mumbai – 400 001.

Tel: 022-22690322 – 23

022 -20820381-85

10<sup>th</sup> February 2024

Dear Sir / Madam,

***FAQs on Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2023***

As you are aware the Reserve Bank issued the revised investment norms vide The Reserve Bank of India (Classification, Valuation, and Operation of Investment Portfolio of Commercial Banks) Directions 2023 dated September 12, 2023.

Post issuance of these Directions, FIMMDA had shared with RBI collated Suggestions / Feedback from member banks, and sought clarifications on the guidelines.

Subsequently, the Reserve Bank held meetings with all the public sector banks and private sector banks [including small finance banks] on December 13 and 18, 2023, respectively, where in RBI officials provided clarity on several aspects of the guidelines including the principles and approach there on.

2. During the above meetings, banks requested RBI to issue clarification on a few technical issues to facilitate the timely implementation of the guidelines.

In this context, RBI has issued further set of FAQs prepared by them and advised FIMMDA to circulate amongst member banks.

Please find attached FAQs prepared by the Reserve Bank on the matter.

Member Banks are requested to take note of the same.

Regards,

G. Ravindranath

Chief Executive Officer

---

**FIXED INCOME MONEY MARKET AND DERIVATIVES ASSOCIATION OF INDIA**

**FAQs on  
Reserve Bank of India (Classification, Valuation  
and Operation of Investment Portfolio of Commercial Banks) Directions, 2023**

---

**Q.No.1: Can investments in bonds with a put option be classified under the HTM category?**

*[Refer chapter III to the Directions]*

Ans:

- a. For a security to be classified under HTM category, contractual terms of the security should give rise to cash flows that meets the SPPI criterion and the security must be acquired with the intention and objective of holding it to maturity. Accordingly, the bond with put option meeting these criteria can be classified under HTM.
- b. Exercise of put option prior to maturity is generally not consistent with the intention and objective of holding to maturity and, therefore, may be treated as sale out of HTM. However, if the put option is exercised in scenarios such as a downgrade in credit ratings or default by the counterparty, the intention and objective of holding to maturity may not be vitiated.

**Q.No.2: How should the fair value of investments at initial recognition be determined?**

*[Refer paragraphs 7 and 23 of Directions]*

Ans:

Reference is invited to the paragraph 7 of the Directions, in terms of which, all investments shall be measured at fair value on initial recognition. Unless facts and circumstances suggest that the fair value of investments is materially different from its acquisition cost, it shall be presumed that at initial recognition, the acquisition cost is the fair value. In cases where this presumption does not hold, the fair value of investments at initial recognition shall be determined in terms of Chapter VIII of the Directions.

**Q.No.3: What is the period over which the discount or premium should be amortised for securities with a call or put option?**

*[Refer Chapter V of Directions]*

Ans:

The discount/premium on securities, including on securities with the call/put option, shall be amortised over its residual contractual maturity. Further, the discount/premium on perpetual debt security shall be amortised up to the earliest call date.

**Q.No.4: Paragraph 36(a)(v) of the Directions prescribe that in case of conversion of principal and/or interest into equity shares, debentures, bonds, etc., such instruments shall be classified in the same asset classification category as the loan and provision shall be made as per the norms. Further, if post conversion, the classification is standard or subsequently upgraded to standard as per the IRACP norms, the investment shall be categorised in HTM, AFS or FVTPL (including HFT) as per the requirements of Chapter III. Does this imply that the banks shall be allowed to classify these securities under HTM, AFS, or FVTPL (including HFT) only upon upgradation and not at initial recognition? Also, clarity is required on the what is meant by the segregation of such NPI investments from the rest of the portfolio?**

*[Refer paragraph 36(a)(v) & 36(b) of Directions]*

Ans:

- a. In partial modification to the paragraph 36(a)(v), it is clarified that the equity shares, debentures, bonds, etc., received upon conversion of principal and/or interest shall, be classified under HTM, AFS, or FVTPL (including HFT) only at initial recognition (i.e., when the loan is derecognised and the bond/equity, etc. is recognised), as per Chapter III of the Directions. Banks may, however, note that the asset classification of such instruments shall be the same as the loan and provisions made accordingly as stated in para 36(a)(v).
- b. paragraph 36(b) of the Directions prescribes that once an investment become NPI, it should be segregated from rest of the portfolio and not considered for netting valuation gains and losses. It is clarified that the 'segregation from the rest of the portfolio' in this context means that such investments shall be segregated from other

investments **within the same category** [i.e., HTM, AFS, or FVTPL (including HFT)] under which it was classified at initial recognition. Reclassification of the securities shall be guided by provisions of Chapter VI of the Master Direction.

**Q.No.5: Should special securities<sup>1</sup> received from the Government of India towards the bank's recapitalisation requirement before FY 2021-22 be recognised at fair value at the time of transition to revised guidelines?**

*[Refer paragraph 43 of Directions]*

Ans:

As per paragraph 43 of the Directions, at the time of transition, the revised carrying value of securities classified under the HTM category shall be its acquisition cost adjusted for any premium/ discount amortised between the date of acquisition and March 31, 2024. Further, footnote number 35 to this paragraph specifies that in respect of special securities received from the Government of India towards the bank's recapitalisation, the acquisition cost shall be as determined at initial recognition in terms of Chapter IV of this Directions. Accordingly, at the time of transition, as per Chapter IV of the Directions, the acquisition cost of these securities shall be the fair value at initial recognition arrived based on the prices / YTM of similar tenor Central Government securities put out by FBIL. Therefore, the revised carrying value of such special securities shall be fair value at initial recognition adjusted for any premium/ discount amortised between the date of acquisition and March 31, 2024. Further, as given in paragraph 43 of the Directions, the difference between the revised carrying value and the previous carrying value shall be adjusted in any General /Revenue Reserves.

---

<sup>1</sup> Special securities mean non-interest bearing (non-transferable) special Gol securities issued at par

**Q.No.6: Whether net unrealised gain on Level 3 instruments transferred to General/Revenue Reserves or in AFS-Reserves at the time of transition should be deducted from CET 1 capital?**

*[Refer paragraphs 28, 41 and 43 of Directions]*

Ans:

Net unrealised gain on Level 3 instruments (including investments and derivatives) transferred to Revenue/ General Reserve and AFS-Reserve at the time of transition, i.e., April 1, 2024, should be deducted from CET 1 capital.

**Q.No.7: At the time of transition, how would the revised carrying value of securities held under HTM, AFS and HFT in the previous framework and re-classified to HTM in the revised framework be calculated?**

*[Refer paragraph 43 of Directions]*

- a. Paragraph 43 of the Directions prescribes that, at the time of transition, the revised carrying value of securities to be classified under HTM shall be the acquisition cost adjusted for any premium/ discount amortized between the date of acquisition and March 31, 2024.
- b. Only in exceptional circumstances, where it is not practicable for banks to calculate revised carrying value as above, the fair value of the securities as of March 31, 2024, may be taken as the revised carrying value.
- c. Further, as given under paragraph 43, the difference, between the revised carrying value and the previous carrying value, shall be adjusted in any General/Revenue Reserves.

**Q.No.8: At the time of transition, how would the revised carrying value of securities held under HTM, AFS and HFT in the previous framework and re-classified to AFS in the revised framework be calculated?**

*[Refer paragraph 43 of Directions]*

- a. Paragraph 43 of the Directions prescribes that, at the time of transition, the revised carrying value of securities to be classified under AFS shall be fair value as at March

31, 2024, and the difference between the revised and previous carrying value shall be adjusted in AFS-Reserve.

- b. In view of the response to Q.No. 7 above, in modification to the above paragraph, it is now advised that the difference between the revised and previous carrying value shall be adjusted in Revenue/General Reserve rather than AFS-Reserve. However, in the case of equity instruments designated under AFS difference between the revised and previous carrying value shall be adjusted in AFS-Reserve.