भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/10
DOR.MRG.No.4/21.04.141/2025-26 April 1, 2025

Madam / Sir,

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

The Reserve Bank of India (Classification, Valuation and Operation of the Investment Portfolio of Commercial Banks) Directions, 2023 were issued on September 12, 2023. Based on the market experience and practices by banks, clarifications on a few important aspects of the Directions, *ibid* are being issued in the form of Frequently Asked Questions (FAQs)[1], as provided in the Annex.

Applicability

2. These instructions are applicable to all commercial banks (excluding regional rural banks) with effect from the date of implementation of the Directions, *ibid*.

3. The Reserve Bank of India (Classification, Valuation and Operation of the Investment Portfolio of Commercial Banks) Directions, 2023 shall be updated to reflect these FAQs and other consequential changes.

Yours faithfully,

(Usha Janakiraman)
Chief General Manager-in-Charge

[1] These FAQs were made available to Fixed Income Money Market and Derivatives Association of India (FIMMDA), which placed it on its website on February 10, 2024. Modifications to existing FAQs are also included in the Annex.

Annex

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 considered as vitiated.

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

[Refer Clauses 7 and 23 of Directions]

Ans: In terms of clause 7 of the Directions, 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: Clause 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 what is meant by the segregation of such NPI investments from the rest of the portfolio?

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

Ans:

a. In partial modification to the clause 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 clause 36(a)(v).

b. The clause 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[2] 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 Clause 43 of Directions]

Ans: As per clause 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 clause specifies that in respect of special securities received from the Government of India towards banks' 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 clause 43 of the Directions, the difference between the revised carrying value and the previous carrying value shall be adjusted in any General /Revenue Reserves.

[2] Special securities mean non-interest bearing (non-transferable) special GoI 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 Clauses 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 Clause 43 of Directions]

Ans:

a. The clause 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 clause 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 Clause 43 of Directions]

Ans:

a. The clause 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 the 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 clause, it is now advised that the difference between the revised and the 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 the previous carrying value shall be adjusted in AFS-Reserve.

Q.No.9: At what value will special securities received from Government of India towards a bank's recapitalisation requirement be recognised and how should they be fair valued for disclosure purpose?

[Refer Clause 7 of Directions]

Ans: Special securities received from the Government of India towards recapitalisation of banks shall be initially recognised at their fair value based on the prices/YTM put out by FBIL or as determined under the clause 26.1(c) of these Directions, as the case may be. Any difference between the acquisition cost and fair value so arrived shall be immediately recognized in the Profit and Loss Account. Further, subsequent valuation of such special securities, for disclosure purpose, shall be based on the clause 26.1(c) of these Directions.