



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**  
www.rbi.org.in

RBI/2015-16/43

DCBR. BPD (PCB).MC.No. 4/16.20.000/2015-16

July 1, 2015

The Chief Executive Officers of  
All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

**Master Circular on Investments by Primary (Urban) Co-operative Banks**

Please refer to our [Master Circular UBD.BPD.\(PCB\) MC.No.12/16.20.000/2014-15 dated July 1, 2014](#) on the captioned subject (available at RBI website [www.rbi.org.in](http://www.rbi.org.in)). The enclosed Master Circular consolidates and updates all the instructions/guidelines on the subject issued up to June 30, 2015 and mentioned in the Appendix.

Yours faithfully,

(Suma Varma)  
Principal Chief General Manager

Encl: As above

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**हिंदी आसान है, इसका प्रयोग बढ़ाइए—**

चेतावनी: भारतीय रिज़र्व बैंक द्वारा ई-मेल, डाक, एसएमएस या फोन कॉल के जरिए किसी की भी व्यक्ति की जानकारी जैसे बैंक के खाते का ब्यौरा, पासवर्ड आदि नहीं मांगी जाती है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी तरीके से जवाब मत दीजिए।  
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**MASTER CIRCULAR ON INVESTMENTS BY PRIMARY (UBRAN)  
CO-OPERATIVE BANKS**

**1. RESTRICTIONS ON HOLDING SHARES IN OTHER  
CO-OPERATIVE SOCIETIES**

1.1 Section 19 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (BR Act, 1949 (AACCS)) stipulates that no co-operative bank shall hold shares in any other co-operative society except to such extent and subject to such conditions as the Reserve Bank of India (Reserve Bank) may specify in that behalf. However, nothing contained in the section applies to -

1.1.1 shares acquired through funds provided by the State Government for that purpose ;

1.1.2 in the case of a central co-operative bank, the holding of shares in the state co-operative bank to which it is affiliated; and

1.1.3 in the case of a primary (urban) co-operative bank (UCB), 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.

1.2 In pursuance of the powers conferred by section 19 read with section 56 of the said Act, the Reserve Bank has specified that the extent and conditions subject to which co-operative banks may hold shares in any other co-operative society shall be as follows :

1.2.1 The total investments of a co-operative bank in the shares of co-operative institutions, other than those falling under any of the categories stated at paragraphs 1.1.1 to 1.1.3 above, shall not exceed 2 per cent of its owned funds (paid-up share capital and reserves).

1.2.2 The investment of a bank in the shares of any one co-operative institution coming under paragraph 1.2.1 above shall not exceed 5 per cent of the subscribed capital of that institution.

**Note :** When more than one co-operative bank contributes to the shares in a co-operative society falling under paragraph 1.2.1, the limit of 5 per cent of the subscribed capital indicated above shall apply not in respect of the investment of each of the banks but in respect of the investment of all the banks taken together. In other words, the total investment of all the co-operative banks should be limited to 5 per cent of the subscribed capital of the enterprise concerned.

A co-operative bank should offer to make its contribution to the shares of a co-operative society coming under paragraph 1.2.1 above only if the bye-laws

of the recipient society provide for the retirement of share capital contributed by it.

- 1.2.3 The retirement of the share capital contributed by a bank to the shares of any society coming under paragraph 1.2.1 above should be completed in 10 equal annual installments commencing from the co-operative year immediately following the year in which the concern commences business or production.
- 1.2.4 A co-operative bank should not, except with the permission of the Reserve Bank, contribute to the share capital of a society coming under category referred to in paragraph 1.2.1 above, if it is situated outside its area of operation.
- 1.2.5 The above restrictions will not apply to holdings by co-operative banks of shares in non-profit making co-operative societies such as those formed for the protection of mutual interests, (e.g. co-operative banks' association) or for the promotion of co-operative education etc. (e.g. state co-operative union), or housing co-operatives for the purpose of acquiring premises on ownership basis, etc.

## **2 STATUTORY (SLR) INVESTMENTS**

### **2.1 Act Provisions**

- 2.1.1 In terms of provisions of section 24 of the BR Act 1949, (AACS), every primary (urban) co-operative bank is required to maintain liquid assets which at the close of business on any day should not be less than such percentage but not exceeding 40 percent of the total of its demand and time liabilities in India as notified by Reserve Bank of India in the Official Gazette (in addition to the minimum cash reserve requirement).
- 2.1.2 The banks may hold such liquid assets in such and form and manner as notified by Reserve Bank of India in the Official Gazette.

### **2.2 Maintenance of Statutory Liquidity Ratio (SLR) for UCBs**

- 2.2.1 All UCBs are required to maintain a certain minimum level of their SLR holdings as a percentage of their Net Demand and Time Liabilities (NDTL). SLR for all primary (Urban) Co-operative Banks has been reduced by 250 basis points from 25.00 per cent to 22.50 per cent of their total demand and time liabilities with effect from the fortnight beginning July 12, 2014. With effect from February 7, 2015, the SLR for all UCBs is 21.50% of NDTL. Primary (Urban) Co-operative Banks not maintaining SLR in three forms i.e. cash, gold and approved securities were given time up to March 31, 2015 to comply with instructions contained in the Notification UBD.BPD. (PCB). Not. No. 2/16.26.000/2013-14 dated June 5, 2014 (Annex

VI). In the interim period, Primary (Urban) Co-operative Banks were permitted to maintain SLR as per instructions contained in circulars UBD.BR.Cir.19/16.26.00/2001-02 dated October 22, 2001 and [UBD.\(PCB\).CO.BPD.Cir.28/16.26.00/2008-09 dated November 26, 2008](#). However, term deposits held by Primary (Urban) Co-operative Banks with Public Sector Banks were also made eligible for being reckoned for SLR purpose in the interim period, upto March 31, 2015.

**Note:** Balances kept with State Co-operative Banks / District Central Co-operative Banks as also term deposits with public sector banks are now not eligible for being reckoned for SLR purpose w.e.f April 1, 2015.

### **2.3 Manner of Holding Mandatory Investments**

- 2.3.1 The Securities may be held in either of the three forms viz: (a) Physical scrip form, (b) Subsidiary General Ledger (SGL) Account and (c) in a dematerialised account with depositories (NSDL/CDSL, NSCCL). In respect of securities with SGL facility, the SGL account can be maintained in the bank's own name directly with the Reserve Bank, or in a Constituent SGL Account opened with any scheduled commercial bank/state co-operative bank/Primary Dealer (PD) or Stock Holding Corporation of India Ltd. (SHCIL)
- 2.3.2 All UCBs are required to maintain investments in Government Securities only in SGL Accounts with Reserve Bank or in CSGL Accounts with PDs, scheduled commercial banks, state co-operative banks, scheduled UCBs as at paragraph 2.3.3 below, depositories and SHCIL.
- 2.3.3 Scheduled UCBs with net worth of Rs. 200.00 crore or more and having CRAR of 10% and above are eligible to open and maintain Constituent Subsidiary General Ledger (CSGL) accounts.
- 2.3.4 All licensed UCBs (other than those under all inclusive directions) are permitted to open SGL accounts with the Reserve Bank of India.

## **3 INVESTMENT POLICY**

- 3.1 Keeping in view the various regulatory/statutory and the bank's own internal requirements, UCBs should lay down, with the approval of their Board of Directors, the broad Investment Policy and objectives to be achieved while undertaking investment transactions. The investment policy should be reviewed each year. The Board/Committee/Top Management should actively oversee investment transactions. Banks should not undertake any transactions on behalf of Portfolio Management Scheme (PMS) clients in their fiduciary capacity, and on behalf of other clients, either as custodians of their investments or purely as their agents.

- 3.2 The bank's investment policy should clearly define the authority to put through deals, procedure to be followed for obtaining sanction of the appropriate authority, putting through deals, fixing various prudential exposure limits, and reporting system.
- 3.3 The investment policy of the bank should include guidelines on the quantity (ceiling) and quality of each type of security to be held on its own investment account. Bank should clearly indicate the authority to put through investment deals and the reporting system to be adopted. It should be prepared strictly observing the instructions issued by the Registrar of Co-operative Societies and the Reserve Bank from time to time and clearly spell out the internal control mechanism, accounting standards, audit, review and reporting system to be evolved.
- 3.4 All the transactions should be clearly recorded indicating full details. The Top Management should undertake a periodic review of investment transactions in a critical manner and put up large transactions to the Board, for information.
- 3.5 A copy of the internal investment policy guidelines framed by the bank with the approval of its Board should be forwarded to the Regional Office concerned of the Reserve Bank, certifying that the policy is in accordance with the prescribed guidelines and the same has been put in place. Subsequent changes, if any, in the Investment Policy should also be advised to the Regional Office of the Reserve Bank.

#### **4 GENERAL GUIDELINES**

- 4.1 UCBs should not undertake any purchase/sale transactions with broking firms or other intermediaries on principal to principal basis.
- 4.2 No sale transaction should be put through by banks without actually holding the security in its investment account i.e. under no circumstances banks should hold an oversold position in any security. However, scheduled UCBs may sell a Government Security already contracted for purchase, provided :
  - 4.2.1 the purchase contract is confirmed prior to the sale,
  - 4.2.2 the purchase contract is guaranteed by CCIL or the security is contracted for purchase from the Reserve Bank and,
  - 4.2.3 the sale transaction will settle either in the same settlement cycle as the preceding purchase contract, or in a subsequent settlement cycle so that the delivery obligation under the sale contract is met by the securities acquired under the purchase contract (e.g. when a security is purchased on T+0 basis, it can be sold on either T+0 or T+1 basis on the day of the purchase; if however it is purchased on T+1 basis, it can be sold on T+1 basis on the day of purchase or on T+0 or T+1 basis on the next day). Sale of Government Securities

allotted to successful bidders in primary issues on the day of allotment, with and between CSGL constituent account holders is permitted.

- 4.3 For purchase of securities from the Reserve Bank through Open Market Operations (OMO), no sale transactions should be contracted prior to receiving the confirmation of the deal/advice of allotment from the Reserve Bank.
- 4.4 Banks should exercise abundant caution to ensure adherence to these guidelines. The concurrent auditors should specifically verify the compliance with these instructions. The concurrent audit reports should contain specific observations on the compliance with the above instructions and should be incorporated in the monthly report to the Chairman and Managing Director/Chief Executive Officer of the bank and the half yearly review to be placed before the Board of Directors. CCIL will make available to all market participants as part of its daily reports, the time stamp of all transactions as received from NDS. The mid office/back office and the auditors may use this information to supplement their checks/scrutiny of transactions for compliance with the instructions. Any violation noticed in this regard should immediately be reported to the Regional Office concerned of Urban Banks Department and the Public Debt Office (PDO), Reserve Bank of India, Mumbai. Any violation noticed in this regard would attract penalties as currently applicable to the bouncing of SGL forms even if the deal has been settled because of the netting benefit under DVP III, besides attracting further regulatory action as deemed necessary.
- 4.5 Banks successful in the auction of primary issue of Government Securities, may enter into contracts for sale of the allotted securities in accordance with the terms and conditions as indicated below :
  - 4.5.1 The contract for sale can be entered into only once by the allottee bank, on the basis of an authenticated allotment advice issued by Reserve Bank. The selling bank should make suitable noting/stamping on the allotment advice indicating the sale contract number etc., the details of which should be intimated to the buying entity. The buying entity should not enter into a contract to further resell the securities until it actually holds the securities in its investment account. Any sale of securities should be only on a T+0 or T+1 settlement basis.
  - 4.5.2 The contract for sale of allotted securities can be entered into by banks only with entities maintaining SGL Account with Reserve Bank for delivery and settlement on the next working day through the DVP system.
  - 4.5.3 The face value of securities sold should not exceed the face value of securities indicated in the allotment advice.

- 4.5.4 The sale deal should be entered into directly without the involvement of broker/s.
- 4.5.5 Separate record of such sale deals should be maintained containing details such as number and date of allotment advice, description and the face value of securities allotted, the purchase consideration, the number, date of delivery and face value of securities sold, sale consideration, the date and details of actual delivery i.e. SGL Form No., etc. This record should be made available to Reserve Bank for verification. Banks should immediately report any cases of failure to maintain such records.
- 4.5.6 Such type of sale transactions of Government Securities allotted in the auctions for primary issues on the same day and based on authenticated allotment advice should be subjected to concurrent audit and the relative audit report should be placed before the Board of Directors of the bank once every month. A copy thereof should also be sent to the Regional Office concerned of Urban Banks Department.
- 4.5.7 Banks will be solely responsible for any failure of the contracts due to the securities not being credited to their SGL account on account of non-payment / bouncing of cheque etc.
- 4.6 Banks should seek a scheduled commercial bank, a PD, a financial institution, another UCB, insurance company, mutual fund or provident fund, as counter-party for their transactions. Preference should be given for direct deals with such counter parties. It will be desirable to check prices from other banks or PDs with whom the UCB may be maintaining CSGL account. The prices of all trades done in Government Securities, including those traded through NDS, are also available at Reserve Bank's website ([www.rbi.org.in](http://www.rbi.org.in)).
- 4.7 Scheduled UCBs may undertake retailing of Government Securities with non-bank clients, such as provident funds, non banking financial companies, high net worth individuals etc. subject to the following conditions:
- 4.7.1 Banks may freely buy and sell Government Securities on an outright basis at the prevailing market prices without any restriction on the period between sale and purchase.
- 4.7.2 Retailing of Government Securities should be on the basis of ongoing market rates/yield curve emerging out of secondary market transactions.
- 4.7.3 No sale of Government Securities should be effected by banks unless they hold securities in their portfolio either in the form of physical scrips or in the SGL account maintained with Reserve Bank.



- 4.7.4 Immediately on sale, the corresponding amount should be deducted by the bank from its investment accounts and also from its SLR assets.
- 4.7.5 These transactions should be looked into by the concurrent/ statutory auditors of the bank.
- 4.7.6 Scheduled banks should put in place adequate internal control checks/ mechanisms as advised by Reserve Bank from time to time.
- 4.8 Banks may take advantage of the non-competitive bidding facility in the auction of Government of India dated securities, provided by Reserve Bank. Under this scheme, banks may bid upto Rs. two crore (face value) in any auction of Government of India dated securities, either directly, through a bank or through a PD. For availing this facility, no bidding skill is required, as allotment upto Rs. two crore (face value) is made at the weighted average cut-off rate which emerges in the auction. UCBs may also participate directly or through a bank or a PD in the auctions of state development loans, where coupon is mostly fixed in advance and notified by Reserve Bank. An advertisement in leading newspapers is issued 4-5 days in advance of the date of auction. Half yearly auction calendar of Government of India securities is also issued by Reserve Bank.
- 4.9 CSGL Accounts should be used for holding the securities and such accounts should be maintained in the same bank with whom the cash account is maintained. For all transactions delivery versus payment must be insisted upon by the banks.
- 4.10 In case CSGL account is opened with any of the non-banking institutions indicated above, the particulars of the designated funds account (with a bank) should be intimated to that institution.
- 4.11 All transactions must be monitored to see that delivery takes place on settlement day. The fund account and investment account should be reconciled on the same day before close of business.
- 4.12 Officials deciding about purchase and sale transactions should be separated from those responsible for settlement and accounting.
- 4.13 All investment transactions should be perused by the Board at least once a month.
- 4.14 The banks should keep a proper record of the SGL forms received / issued to facilitate counter-checking by their internal control systems/Inspecting Officers of Reserve Bank/other auditors.
- 4.15 All purchase/sale transactions in Government Securities by the banks should necessarily be through SGL account (with Reserve Bank) or CSGL account (with a scheduled commercial bank/state co-operative

bank/PD/SHCIL) or in a dematerialised account with depositories (NSDL/CDSL/NSCCL).

- 4.16 No transactions in Government Securities by a UCB should be undertaken in physical form with any broker.
- 4.17 The entities maintaining the CSGL/designated funds accounts are required to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sales before putting through the transactions.
- 4.18 The security dealings of banks generally being for large values, it may be necessary to ensure, before concluding the deal, the ability of the counter-party to fulfill the contract, particularly where the counter-party is not a bank.
- 4.19 While buying securities for SLR purpose, the bank should ensure that the security it intends to purchase has an SLR status. The SLR status of securities issued by the Government of India and the State Governments will be indicated in the Press Release issued by the Reserve Bank at the time of issuance of the securities. An updated and current list of the SLR securities will be posted on the Reserve Bank's website ([www.rbi.org.in](http://www.rbi.org.in)) under the link "Database on Indian Economy."
- 4.20 In order to avoid concentration of risk, the banks should have a fairly diversified investment portfolio. Smaller investment portfolios should preferably be restricted to securities with high safety and liquidity such as Government Securities.
- 4.21 UCBs may seek the guidance of Primary Dealers' Association of India (PDAI)/Fixed Income and Money Market Dealers' Association (FIMMDA) on investment in Government Securities.

### **Negotiated Dealing System – Order Matching**

- 4.22 With effect from November 18, 2011, all licensed UCBs fulfilling the eligibility criteria contained in [circular IDMD.DOD.No.13/10.25.66/2011-12 dated November 18, 2011](#) are allowed direct access to Negotiated Dealing System – Order Matching platform. The eligibility criteria are as under:
- (a) Current account with RBI or a funds account with one of the Designated Settlement Banks (DSBs) chosen by Clearing Corporation of India Limited (CCIL) for funds settlement.
  - (b) Subsidiary General Ledger (SGL) Account with RBI.
  - (c) Membership of Negotiated Dealing System (NDS).
  - (d) Indian Financial Network (INFINET) connectivity.
  - (e) Membership of CCIL.
  - (f) Minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9%.

- (g) Net Non-Performing Assets (NPA) of less than 5%.
  - (h) Minimum net worth of Rs. 25 crore.
- 4.23 All eligible UCBs desirous of obtaining NDS-OM membership are required to apply to CGM-in-Charge, UBD, RBI, CO, Mumbai for regulatory clearance before applying to IDMD for NDS-OM membership.
- 4.24 Eligible UCBs applying for NDS-OM membership need to have the required infrastructure in place for direct access to NDS-OM and also bear the cost involved in setting up the infrastructure. UCBs may note after opening a SGL account with the RBI (which is one of the several requirements to be fulfilled by a UCB for obtaining NDS-OM membership), the UCB concerned cannot open / maintain a gilt account with a CSGIL account holder. However, such UCBs can continue to bid for Government securities under the scheme of non-competitive bidding in Government securities.

## **5 TRANSACTIONS THROUGH SGL ACCOUNTS**

### **5.1 SGL Account**

- 5.1.1 Transfers through SGL accounts by the banks having SGL facility can be made only if they maintain a regular current account with the Reserve Bank. All transactions in Government Securities for which SGL facility is available, should be put through SGL accounts only.
- 5.1.2 Before issue of SGL transfer forms covering the sale transactions, banks should ensure that they have sufficient balance in the respective SGL accounts. Under no circumstances, should an SGL transfer form issued by a bank in favour of another bank, bounce for want of sufficient balance in the SGL account. The purchasing bank should issue the cheques only after receipt of the SGL transfer forms from the selling bank.
- 5.1.3 If the SGL transfer form bounces for want of sufficient balance in the SGL Account, the bank which has issued the form will be liable for the following penal action:
- 5.1.3.1 The amount of SGL form (cost of purchase paid by the purchaser of the bank) will be debited immediately to the current account of the selling bank with the Reserve Bank.
  - 5.1.3.2 In the event of an overdraft arising in the current account following such a debit, penal interest will be charged by the Reserve Bank on the amount of the overdraft at a rate 3% points above the SBI DFHI's call money lending rate on the day in question.
  - 5.1.3.3 If the bouncing of the SGL form occurs thrice, the bank will be debarred from trading with the use of the SGL facility for a period of 6 months from the date of occurrence of the third bouncing. If after restoration of the facility, any SGL form of the bank bounces

again, the bank will be permanently debarred from the use of the SGL facility in all the PDOs of the Reserve Bank.

## **5.2 SGL Forms**

- 5.2.1 The SGL transfer forms should be in the standard format prescribed by the Reserve Bank and printed on semi-security paper of uniform size. These should be serially numbered and there should be a control system in place to account for each SGL form.
- 5.2.2 SGL transfer forms should be signed by two authorised officials of the bank whose signatures should be recorded with the respective PDO of Reserve Bank and other banks.
- 5.2.3 The SGL transfer form received by the purchasing bank should be deposited in its SGL account immediately. No sale should be effected by way of return of SGL transfer form held by the bank.
- 5.2.4 Any bouncing of SGL transfer forms issued by selling bank in favour of the buying bank should immediately be brought to the notice of the Reserve Bank by the buying bank.

## **5.3 Control, Violation and Penalty Provisions**

- 5.3.1 Record of SGL transfer forms issued/received should be maintained. Balances as per the bank's books in respect of SGL accounts should be reconciled with the balances in the books of PDOs. The PDO concerned will forward a monthly statement of balances of SGL/CSGL account to all account holders. UCBs having SGL/CSGL accounts with PDOs may use these statements for the purpose of monthly reconciliation of their SGL/CSGL balances as per their books and the position in this regard should be placed before the Audit Committee of the Board. This reconciliation should also be periodically checked by the internal audit department. A system for verification of the authenticity of the SGL transfer forms received from other banks and confirmation of authorised signatories should be put in place.
- 5.3.2 Banks should also forward a quarterly certificate to the PDO concerned, indicating that the balances held in the SGL accounts with the PDO have been reconciled and that it has been placed before the Audit Committee of the Board. A copy thereof should be sent to the Regional Office concerned of the Urban Banks Department.
- 5.3.3 Banks should put in place a system to report to the Top Management on a monthly basis the details of transactions in securities, details of bouncing of SGL transfer forms issued by other banks and review of investment transactions undertaken during the period.
- 5.3.4 All promissory notes, debentures, shares, bonds, etc. should be properly recorded and held under joint custody. A separate register may be

maintained to record the particulars of securities taken out/re-lodged. These should be subjected to periodical verification, say once in a quarter or half-year, by persons unconnected with their custody.

- 5.3.5 Certificates should be obtained at quarterly/half-yearly intervals in respect of securities lodged with other institutions. Similarly, it is necessary to reconcile the outstanding Bank Receipts with the counterparty at monthly intervals and reconciliation of SGL Account balance with the PDO at monthly intervals.
- 5.3.6 The internal inspectors and concurrent auditors should peruse the transactions to ensure that the deals have been undertaken in the best interest of the bank. The Vigilance Cell should also make surprise sample checks of large transactions.
- 5.3.7 The concurrent auditors should certify that investments held by the bank, as on the last reporting Friday of each quarter and as reported to Reserve Bank, are actually owned/held by it as evidenced by the physical securities or the out-standings statement. Such a certificate should be submitted to the Regional Office of Urban Banks Department having jurisdiction over the bank, within 30 days from the end of the relative quarter.

## **6 USE OF BANK RECEIPTS (BRs)**

### **6.1 When to use BRs**

- 6.1.1 No BR should be issued under any circumstances in respect of transactions in Government Securities for which SGL facility is available.
- 6.1.2 Even in the case of other securities, BR may be issued for ready transactions only, under the following circumstances :
  - 6.1.2.1 The scrips are yet to be issued by the issuer and the bank is holding the allotment advice.
  - 6.1.2.2 The security is physically held at a different centre and the bank is in a position to physically transfer the security and give delivery thereof, within a short period.
  - 6.1.2.3 The security has been lodged for transfer/interest payment and the bank is holding necessary records of such lodgements and will be in a position to give physical delivery of the security within a short period.
- 6.1.3 No BR should be issued on the basis of a BR (of another bank) held by the bank and no transaction should take place on the basis of mere exchange of BRs held by the banks.

6.1.4 BRs may be issued covering transactions relating to bank's own Investment Accounts only, and no BR should be issued by bank covering transactions relating to Constituents' Account including brokers.

## **6.2 BR form issue, custody, record**

6.2.1 BRs should be issued on semi-security paper, in the standard format (prescribed by Indian Banks' Association (IBA)), serially numbered, and signed by two authorised officials of the bank, whose signatures are recorded with other banks. As in the case of SGL forms, there should be control system in place to account for each BR form.

6.2.2 There should be a proper system for the custody of unused BR forms and their utilisation.

6.2.3 Separate registers of BRs issued / received should be maintained, and arrangements should be put in place to ensure that these are systematically followed-up and liquidated within the stipulated time limit.

6.2.4 A system for verification of the authenticity of the BRs received from other banks and confirmation of authorised signatures should be put in place.

## **6.3 Settlement through BRs**

6.3.1 No BR should remain outstanding for more than 15 days.

6.3.2 A BR should be redeemed only by actual delivery of scrips and not by cancellation of the transaction/set-off against another transaction. If a BR is not redeemed by delivery of scrips within the validity period of 15 days, the BR should be deemed as dishonoured and the bank which has issued the BR should refer the case to Reserve Bank explaining the reasons under which the scrips could not be delivered within the stipulated period and the proposed manner of settlement of the transactions.

## **6.4 Control, Violation and Penalty Provisions**

6.4.1 The existence and operation of controls at the concerned offices should be reviewed, among others, by the statutory auditors and a certificate to this effect may be forwarded to Reserve Bank of India, Urban Banks Department, Central Office, Mumbai - 400 018 every year.

6.4.2 The violation of the instructions relating to the BRs would invite penal action which could include raising of reserve requirements, withdrawal of refinance from the Reserve Bank and denial of access to money markets. The Reserve Bank may also levy such other penalty as it may deem fit in accordance with the provisions of the Banking Regulation Act, 1949 (AACS).

6.4.3 The reconciliation should be periodically checked by the internal audit department.

## **7 ENGAGEMENT OF BROKERS**

### **7.1 Dealing through Brokers**

7.1.1 The inter-bank securities transactions should be undertaken directly between banks and no bank should engage the services of any broker in such transactions. Banks may, however, undertake securities transactions among themselves or with non-bank clients through members of the National Stock Exchange (NSE), the Stock Exchange, Mumbai (BSE)/Over The Counter Exchange of India (OTCEI) wherein the transactions are transparent. In case any transactions in securities are not undertaken on NSE, OTCEI or the BSE, the same should be undertaken by the banks directly without the use of brokers.

7.1.2 Purchase of permissible shares and PSU bonds in the secondary market (other than inter-bank transactions) should be only through recognised stock exchanges and registered stock- brokers.

7.1.3 The SBI DFHI has been permitted to operate as a broker in the inter-bank participation market. This would enable the banks to seek intermediation of SBI DFHI for borrowing/lending, if required. However, the banks shall be free to settle transaction in the inter-bank participations market directly, if so desired.

7.1.4 It should be ensured that the applications of the banks in respect of their own subscription to Central/State Government loans are submitted directly to the receiving offices of the Reserve Bank/State Bank of India and intermediaries or brokers should not be used for the purpose.

7.1.5 Similarly, where the investments are made by the banks on account of their clients, the relative applications bearing the bank's own stamps should be tendered direct to the receiving offices.

7.1.6 If a deal is put through with the help of a broker, the role of the broker should be restricted to that of bringing the two parties to the deal together. Under no circumstances banks should give power of attorney or any other authorisation to the brokers/ intermediaries to deal on their behalf in the money and securities markets.

7.1.7 Disclosure of counter party should be insisted upon on conclusion of the deal put through brokers.

7.1.8 Contract confirmation from the counter party should be insisted upon.

7.1.9 The brokers should not be involved in the settlement process at all i.e. both the fund settlement and delivery of security should be done with the counterparty directly.

## **7.2 Empanelment of Brokers**

7.2.1 The banks should prepare a panel of brokers with the approval of their Board of Directors.

7.2.2 Brokers should be empanelled after verifying their credentials e.g. :

- (a) SEBI registration
- (b) Membership of BSE/NSE/OTCEI for debt market.
- (c) Market turnover in the preceding year as certified by the Exchange/s.
- (d) Market reputation etc.

7.2.3 The bank should check websites of SEBI/respective exchanges, to ensure that the broker has not been put in the banned list.

## **7.3 Broker Limits**

7.3.1 A disproportionate part of the business should not be transacted through only one or a few brokers. Banks should fix aggregate contract limits for each of the approved brokers, and ensure that these limits are not exceeded. A record of broker-wise details of deals put through and brokerage paid should be maintained.

7.3.2 A limit of 5% of total transactions (both purchases and sales) entered into by the banks during a year should be treated as the aggregate upper contract limit for each of the approved brokers.

7.3.3 This limit should cover both the business initiated by the bank and the business offered/brought to the bank by a broker.

7.3.4 It should be ensured that the transactions entered through individual brokers during a year normally do not exceed the prescribed limit. However, if it becomes necessary to exceed the aggregate limit for any broker, the specific reasons, therefore, should be recorded in writing by the authority empowered to put through the deals. In such cases, post-facto approval of the Board may be obtained after explaining the circumstances under which the limit was exceeded.

Note: Clarifications on certain issues raised by the banks in this regard are furnished in Annex I.

## **8 SETTLEMENT OF GOVERNMENT SECURITIES TRANSACTIONS – THROUGH CLEARING CORPORATION OF INDIA LTD. (CCIL)**

8.1 With effect from April 1, 2003, all Government Securities transactions (both Outright and Repo) are being settled through CCIL only. No transaction in Government Securities for settlement by the banks outside



the NDS-CCIL system is being entertained by Reserve Bank since that date.

- 8.2 UCBs, which are not a member of NDS-CCIL system, should undertake their transactions in Government Securities through gilt account/demat account maintained with a NDS member.
- 8.3 With effect from May 25, 2005, all outright secondary market transactions in Government Securities will be settled on T+1 basis. However, in case of repo transactions in Government Securities, the market participants will have the choice of settling the first leg on either T+0 basis or T+1 basis as per their requirement.
- 8.4 As part of restructuring the debt issuance framework in light of Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Internal Technical Group on Central Government Securities had recommended introduction of 'When Issued'(WI) markets in Central Government Securities. 'When Issued', a short of 'when, as and if issued', indicates a conditional transaction in a security authorized for issuance but not as yet actually issued. All 'WI' transactions are on an 'if' basis, to be settled if and when the actual security is issued. 'WI' transactions in Central Government Securities have been permitted to all NDS-Order Matching (NDS-OM) Segment members. The originating transactions (sale or purchase of 'WI' securities) shall be undertaken on NDS-OM platform only. UCBs are permitted to take the cover leg of the 'WI' transactions even outside the NDS-OM platform, i.e. through telephone market. The above measures will be made operational once the necessary software modifications for enabling reporting of 'WI' trades are carried out and will be separately communicated to UCBs concerned. The accounting treatment of transactions undertaken in WI securities would be as follows:
  - (a) The 'WI' security should be recorded in books as an off balance sheet item till issue of the security.
  - (b) The off balance sheet net position in 'WI' market should be marked to market scrip-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 (as stipulated in the Master Circular No: 8 dated July 12, 2006) be used instead. Depreciation, if any, should be provided for and appreciation, if any, should be ignored.
  - (c) The off balance sheet (net) position in 'WI' securities, scrip-wise, would attract a risk weight of 2.5%.
  - (d) On delivery, the underlying security may 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.

- 8.5 It is clarified that the securities bought in the 'WI' market would be eligible for SLR purposes, only on delivery.

## **9 TRADING OF GOVERNMENT SECURITIES ON STOCK EXCHANGES**

- 9.1 With a view to encouraging wider participation of all classes of investors, including retail, in Government Securities, trading in Government Securities through a nation-wide anonymous, order driven, screen-based trading system of the stock exchanges, in the same manner in which trading takes place in equities, has been introduced. This facility of trading of Government Securities on the stock exchanges, in the dematerialized mode only, would be available to banks in addition to the present NDS of the Reserve Bank, which will continue to remain in place.
- 9.2 The UCBs have the option to undertake transactions in dated Government of India securities in dematerialised form on automated order driven system of the NSE, BSE and OTCEI in addition to the existing mode of dealing through SGL accounts with Reserve Bank or CSGL accounts with the designated entities such as Scheduled Commercial Bank/PD/State Co-operative Bank etc.
- 9.3 As the trading facility on the above stock exchanges will operate parallel to the present system of trading in Government Securities, the trades concluded on the exchanges will be cleared by their respective clearing corporations/Clearing Houses. However, trading members of the stock exchanges shall not be involved in the settlement process for any regulated entity of Reserve Bank. All stock exchange trades of banks have to be settled either directly with CCIL/Clearing House (in case they are clearing members) or else through a clearing member custodian.
- 9.4 Banks, as institutional investors on the stock exchanges, may undertake transactions only on the basis of giving and taking delivery of securities. In other words, short selling of Government Securities, even on an intra-day basis, is not permissible. However, well managed Urban Co-operative Banks, who are members of NDS-OM and have regular concurrent audit of their treasury operations, are permitted to undertake intra-day short selling of Government Securities. Accordingly, Urban Co-operative Banks, fulfilling the following conditions are required to seek permission from the Regional Offices concerned to undertake such transactions.
- a) NDS-OM Membership.
  - b) Net Worth of ₹25 crore, CRAR of 9% or more and net NPA of not more than 3%.
  - c) Sound risk management practices and mandatory concurrent audit of their Treasury Operations.

Further, Urban Co-operative Banks are advised to adhere to the instructions / directions as prescribed by Internal Debt Management Department of Reserve Bank of India for intra-day short selling of Government Securities from time to time.

- 9.5 With a view to facilitating participation on the stock exchanges within the regulations prescribed by Reserve Bank, SEBI and the exchanges, banks are being extended the following facilities :
- 9.5.1 Opening de-mat accounts with a bank depository participant (DP) of NSDL/CDSL or with SHCIL in addition to their SGL/CSGL accounts with Reserve Bank/authorised entities.
- 9.5.2 Value free transfer of securities between SGL/CSGL and de-mat accounts is being enabled at PDO, Mumbai, subject to operational guidelines issued separately by our Department of Government and Bank Accounts (DGBA) to all SGL account holders.
- 9.6 The balances in Government Securities maintained by the banks in the depositories will be included for SLR purpose. Any shortfall in maintenance of CRR/SLR resulting from settlement failure (on either the NDS-CCIL market or the stock exchanges) will attract the usual penalties.
- 9.7 The Boards of UCBs may take a conscious decision in regard to using the stock exchange platform for making investments in Government Securities in addition to the existing NDS-CCIL market and the direct bidding facility. As regulations of SEBI will also apply insofar as trading of Government Securities is concerned, the Board should frame and implement a suitable policy to ensure that operations are conducted in accordance with the norms laid down by Reserve Bank/SEBI and the respective stock exchange. Prior to commencing operations, the dealing officials should also familiarize themselves with the basic operating procedures of the stock exchanges.

## **9.8 Operational Guidelines**

- 9.8.1 Banks should put in place appropriate internal control systems catering to stock exchange trading and settlement before commencing operations on the exchanges. The back office arrangement should be such that trading on the NDS/OTC market and on the stock exchanges can be tracked easily for settlement, reconciliation and management reporting. Banks should, therefore, install enabling IT infrastructure and adequate risk management systems.
- 9.8.2 Only SEBI registered brokers who are authorized by the permitted exchanges (NSE, BSE or OTCEI) to undertake transactions in Government Securities can be used for placing buy/sell orders. A valid contract note indicating the time of execution must be obtained from the broker at end of day.

- 9.8.3 The dealing officials should independently check prices in the market or on the stock exchange screens before placing their orders with the brokers. The decision-making processes cannot be delegated to brokers by the banks.
- 9.8.4 The transactions done through any broker will be subjected to the current guidelines on transactions done through brokers.
- 9.8.5 Brokers/trading members shall not be involved in the settlement process; all trades have to be settled through clearing member custodians. Hence, it will be necessary for UCBs to enter into a bilateral clearing agreement with such service providers beforehand.
- 9.8.6 All transactions must be monitored with a view to ensuring timely receipt of funds and securities. Any delay or failure should be promptly taken up with the exchange/authorities concerned.
- 9.8.7 At the time of trade, securities must be available with the banks either in their SGL or in the de-mat account with depositories.
- 9.8.8 Any settlement failure on account of non-delivery of securities/non-availability of clear funds will be treated as SGL bouncing and the current penalties in respect of SGL bouncing will be applicable. The stock exchanges will report such failures to the respective PDOs.
- 9.8.9 For the limited purpose of dealing through the screen based trading system of the stock exchanges the condition that a UCB should seek a scheduled commercial bank, a PD, a financial institution, another UCB, insurance company, mutual fund or provident fund as a counterparty, while undertaking transactions in Government Securities, will not apply.
- 9.8.10 Banks should report on weekly basis to their Audit Committee of the Board, giving the details of trades on aggregate basis done on the stock exchanges and details of any 'closed-out' transactions on the exchanges.
- 9.8.11 The banks should take all necessary precautions and strictly adhere to all instructions/guidelines issued by the Reserve Bank relating to transactions in Government Securities as hitherto.

## **10 READY FORWARD CONTRACTS IN GOVERNMENT SECURITIES**

- 10.1 In terms of the Notification No. S.O. 131(E) dated January 22, 2003 issued by Reserve Bank of India under powers derived from Section 29A of the Securities Contracts (Regulation) Act (SCRA), 1956, UCBs may enter into ready forward contracts (including reverse ready forward contracts), only in (i) Dated Securities and Treasury Bills issued by

Government of India and (ii) Dated Securities issued by State Governments.

10.2 Ready forward contracts in the above mentioned securities may be entered into with :

10.2.1 Persons or entities maintaining a SGL account with Reserve Bank of India, Mumbai; and

10.2.2 The following categories of entities who do not maintain SGL accounts with the Reserve Bank but maintain gilt accounts (i.e. gilt account holders) with a bank or any other entity (i.e. the custodian) permitted by the Reserve Bank to maintain CSGL account with its PDO, Mumbai :

- (i) Any scheduled bank,
- (ii) Non-scheduled Primary (Urban) Co-operative Banks
- (iii) Any primary dealer authorised by the Reserve Bank,
- (iv) Any non-banking financial company registered with the Reserve Bank, other than Government companies as defined in Section 617 of the Companies Act, 1956,
- (v) Any mutual fund registered with the SEBI
- (vi) Any housing finance company registered with the National Housing Bank,
- (vii) Any insurance company registered with the Insurance Regulatory and Development Authority,
- (viii) Any listed company, having a gilt account with a scheduled commercial bank; and
- (ix) Any unlisted company which has been issued special securities by the Government of India and having gilt account with a scheduled commercial bank.

**Note:** The eligible unlisted companies can enter into ready forward transactions as the borrower of funds in the first leg of the repo contract only against the collateral of the special securities issued to them by the Government of India. Further, the counterparty to the eligible unlisted companies for repo transactions should be either a bank or a PD maintaining SGL account with the Reserve Bank (paragraphs 3 (a) (b) of [circular IDMD.DOD.No.334/11.08.36/2009-10 dated July 20, 2009](#)).

10.3 All persons or entities specified at 10.2.2 above can enter into ready forward transactions among themselves subject to the following restrictions:

10.3.1 An SGL account holder may not enter into a ready forward contract with its own constituent. That is, ready forward contracts should not be undertaken between a custodian and its gilt account holder.

- 10.3.2 Any two gilt account holders maintaining their gilt accounts with the same custodian (i.e. the CSGL account holder) may not enter into ready forward contracts with each other, and
- 10.3.3 UCBs may not enter into ready forward contracts with the non-banking financial companies. However, this restriction would not apply to repo transactions between UCBs and authorised Primary Dealers in Government Securities.
- 10.4 All ready forward contracts should be reported on the NDS. In respect of ready forward contracts involving gilt account holders, the custodian (i.e., the CSGL account holder) with whom the gilt accounts are maintained will be responsible for reporting the deals on the NDS on behalf of the constituents (i.e. the gilt account holders).
- 10.5 All ready forward contracts shall be settled through the SGL Account / CSGL Account maintained with the Reserve Bank, Mumbai with the CCIL acting as the central counter party for all such ready forward transactions.
- 10.6 The custodians should put in place an effective system of internal control and concurrent audit to ensure that:
- 10.6.1 Ready forward transactions are undertaken only against the clear balance of securities in the gilt account,
- 10.6.2 All such transactions are promptly reported on the NDS, and
- 10.6.3 Other terms and conditions referred to above have been complied with.
- 10.7 UCBs can undertake ready forward transactions only in securities held in excess of the prescribed SLR requirements.
- 10.8 No sale transaction should be put through without actually holding the securities in the portfolio by a seller of securities in the first leg of a ready forward transaction.
- 10.9 Securities purchased under the ready forward contracts shall not be sold during the period of the contract.

#### **10.10. Prohibition against buy-back arrangements**

- 10.10.1 Banks should not undertake double ready forward deals in Govt. securities, including treasury bills.
- 10.10.2 No ready forward and double ready forward deals should be put through even among banks and even on their investment accounts in other securities such as public sector bonds, units of UTI, etc.

10.10.3 No ready forward and double ready forward deals should be entered into in any securities including the Government securities, on behalf of other constituents including brokers.

## **11 READY FORWARD CONTRACTS IN CORPORATE DEBT SECURITIES**

11.1 Scheduled Urban Co-operative Banks with strong financials and sound risk management practices are eligible as participants to undertake ready forward contracts in corporate debt securities. Accordingly, Scheduled Urban Co-operative Banks, fulfilling the following conditions only would be permitted to undertake such transactions.

(a) CRAR of 10% or more and gross NPA of less than 5% and continuous record of profits during the previous three years.

(b) Sound risk management practices and mandatory concurrent audit of the Investment portfolio.

11.2 Further, the Repo transactions in corporate bonds shall be undertaken only with scheduled commercial banks / PDs and not with other market participants. Urban Co-operative Banks which are lenders of funds in a repo transaction may provide for Counter-party credit risk corresponding to the risk weight for such exposure as applicable to the loan / investment exposure. Urban Co-operative Banks may ensure that securities acquired under repo along with other Non-SLR investment already in the Balance Sheet should be within the stipulated ceiling of Non-SLR investment (i.e. 10% of a bank's total deposits as on March 31 of the previous year). The funds borrowed under repo should be within the limit prescribed for call money borrowing (i.e. 2% of the previous year's deposits).

11.3 The amount borrowed by the bank through repo shall be reckoned as part of its DTL and the same shall attract CRR / SLR.

11.4 Urban Co-operative Banks are advised to adhere to the directions as prescribed by Internal Debt Management Department of Reserve Bank of India for repo in corporate bonds from time to time.

## **12 GUIDELINES FOR ACCOUNTING OF REPO/REVERSE REPO TRANSACTIONS**

The Reserve Bank (IDMD) has issued detailed guidelines for accounting of market repo transactions in Government Securities and Corporate Debt Securities. The guidelines are furnished in Annex IV.

## **13 NON - SLR INVESTMENTS**

13.1 In order to contain risks arising out of the non-SLR investment portfolio of banks, the banks should adhere to the following guidelines:

### 13.1.1 Prudential Limit

The Non-SLR investments will continue to be limited to 10% of a bank's total deposits as on March 31 of the previous year.

### 13.1.2 Instruments

UCBs may invest in the following instruments:

- (a) "A" or equivalent *and higher* rated Commercial Papers (CPs), debentures and bonds.
- (b) Units of Debt Mutual Funds and Money Market Mutual Funds.
- (c) Shares of Market Infrastructure Companies (MICs).

### 13.1.3 Restrictions

- (a) Investment in perpetual debt instruments is not permitted.
- (b) Investment in unlisted securities should be subject to a minimum rating prescribed at 13.1.2 (a) above and should not exceed 10 percent of the total Non-SLR investments at any time. Where banks have already exceeded the said limit, no further investment in such securities will be permitted. Since there is a time lag between issuance and listing of securities, which are proposed to be listed but not listed at the time of subscription, banks may not be able to participate in primary issues of Non-SLR securities. In view of this, investments in Non-SLR debt securities (both primary and secondary market) by banks where the security is proposed to be listed in the Exchange(s) may be considered as investment in listed security at the time of making investment. However, if such security is not listed within the period specified, the same will be reckoned for the 10 percent limit specified for unlisted Non-SLR securities. In case such investments included under unlisted Non-SLR securities lead to a breach of 10 percent limit, the bank would not be allowed to make further investments in Non-SLR securities (both primary and secondary market) till such time its investment in unlisted securities comes within the limit of 10 percent.
- (c) Investment in deep discount / zero coupon bonds should be subject to the minimum rating as stated above and comparable market yields for the residual duration. However, banks are not permitted to invest in Zero Coupon Bonds from February 18, 2011 as advised vide [circular No.UCB\(PCB\)BPD.Cir.No.36/16.20.000/2010-11 dated February 18, 2011](#) unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).
- (d) Investment in units of Mutual Funds, other than units of Debt Mutual Funds and Money Market Mutual Funds, are not



permitted. The existing holding in units of Mutual Funds other than Debt Mutual Funds and Money Market Mutual Funds, including those in UTI should be disinvested. Till such time that they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at 13.1.1 above. The banks should, however, review risk management policy in place that ensures that they do not have disproportionate exposure in any one scheme of a Mutual Fund.

- (e) Non-SLR investment, other than in units of Debt Mutual Funds and Money Market Mutual Funds, and CPs, shall be in instruments with an original maturity of over one year.
- (f) Fresh investments in shares of All India Financial Institutions (AIFIs) will not be permitted. The existing share holding in these institutions may be phased out and till such time they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at 13.1.1 above.
- (g) All fresh investments under Non-SLR category should be classified under Held for Trading (HFT) / Available for Sale (AFS) categories only and marked to market as applicable to these categories of investments. However, investments in the long term bonds issued by companies engaged in executing infrastructure projects and having a minimum residual maturity of seven years may be classified under Held to Maturity (HTM) category
- (h) All Non-SLR investments will be subject to the prescribed prudential single/group counter party exposure limits.
- (i) All transactions for acquisition / sale of Non-SLR investments in secondary market may be undertaken only with commercial banks / primary dealers as counterparties.
- (j) UCBs investing in shares of Market Infrastructure Companies (MICs), are allowed to exceed the limit for Investments in Non-SLR / unlisted securities prescribed in paragraph 13.1.1 and 13.1.3 (b) above, if it becomes necessary to do so for acquiring membership of MICs. The MICs eligible for such Investments by UCBs are Clearing Corporation of India Ltd., National Payments Corporation of India and Society for World Wide Inter-Bank Financial Tele-Communication (SWIFT). The list of eligible MICs will be updated from time to time by the Reserve Bank of India.

Note : For the definitions of certain items such as rated security, investment grade rating, etc., please see Annex II.

#### **13.1.4 Investment Policy**

The banks should review their investment policy and ensure that it provides for the nature and extent of investments intended to be made in Non-SLR instruments now permitted, the risk parameters and cut-loss limits for holding / divesting the investments. The banks should put in place proper risk management systems for capturing and analyzing the risk in respect of Non-SLR investments and taking remedial measures in time.

#### **13.1.5 Review**

The Board should review the following aspects of Non-SLR investment at least at half-yearly intervals:

- (a) Total business (investment and divestment) during the reporting period.
- (b) Compliance with prudential limits prescribed for Non-SLR investment.
- (c) Compliance with the prudential guidelines issued by Reserve Bank on Non-SLR securities.
- (d) Rating migration of the issuers/issues held in the bank's books and consequent diminution in the portfolio quality.
- (e) Extent of non-performing investments in the Non-SLR category and sufficient provision thereof.

#### **13.1.6 Disclosure**

The banks should disclose the details of the issuer-wise composition of Non-SLR investments and the non-performing investments in the 'Notes on Accounts' of the balance sheet, as indicated in Annex III.

### **13.2 Bonds/ Debentures received through Securitisation/Reconstruction Companies (SC/RC)**

- (i) The bonds/ debentures received by the banks as sale consideration towards sale of financial assets to SC/RCs, will be classified as Non-SLR investments in the books of the banks and accordingly the valuation, classification and other norms applicable to Non-SLR investments of banks as prescribed by Reserve Bank from time to time, would be applicable to the instruments received by the banks by way of sale consideration from SC/ RC. UCBs are allowed to hold these investments, over and above the limit of 10% of its deposits as on 31 March of the previous year, for Non-SLR securities. UCBs are not permitted to make any direct investment in the security receipts, pass-through certificates, or bonds/ debentures issued by SC/RC. Urban Cooperative Banks registered under the Multi-State Co-operative Societies Act, 2002 are permitted to invest in Security Receipts issued by SC

/ RC in respect of financial assets sold by them to the SC / RC. However, UCBs must ensure that there is no order issued by a Court of competent jurisdiction restricting them from entering into such transactions. A set of guidelines to be followed by Multi-State Co-operative Banks on sale of Financial Assets to SC / RC has been formulated and furnished in the Annex V. The guidelines may be placed before the bank's Board and appropriate steps taken for their implementation.

- (ii) When a bank sells its financial assets to SC/RC, on transfer the same would be removed from the books of the bank.
- (iii) If the sale to SC/RC is at a price below the Net Book Value (NBV) (i.e. book value less the provision held), the shortfall should be written off/ debited to Profit & Loss Account of that year, subject to the provisions of co-operative societies acts/rules/administrative guidelines in regard to write-off of debts.
- (iv) Prior to May 15, 2015, if the sale is for a value higher than the NBV banks were not permitted to reverse the excess provisions, but the provisions were utilized to meet the shortfall/loss on account of sale of other assets to SC/RC. With effect from May 15, 2015, it has been decided to permit Multi-State Urban Cooperative Banks to reverse to P& L account the excess provision when the sale is for a value higher than the NBV on sale of NPAs to their profit and loss account. However, banks can reverse excess provision arising out of sale of NPAs only when the cash received (by way of initial consideration and/or redemption of security receipt /pass through certificates) is higher than the NBV of the NPAs sold to SCs/RCs. Further, the quantum of excess provision reversed to profit and loss account will be limited to the extent of which cash exceeds the NBV of the NPAs sold. The quantum of excess provision reversed to the Profit and Loss account on account of sale of NPAs shall be disclosed in the financial statements of the bank under "Notes to Account".

### **13.3. Placement of deposits with other banks by UCBs**

#### **13.3.1 Prudential inter-bank (gross) exposure limit**

The total amount of deposits placed by an UCB with other banks (inter-bank) for all purposes including call money/ notice money, and deposits, if any, placed for availing clearing facility, CSGL facility, currency chest facility, remittance facility and non-fund based facilities like Bank Guarantee, Letter of Credit, etc. shall not exceed 20 per cent of its total deposit liabilities as on March 31 of the previous year. The balances held in deposit accounts with commercial banks and in permitted scheduled UCBs and investments in Certificate of Deposits issued by commercial banks, being inter bank exposures, will be included in this 20 per cent limit.

In cases where the smaller non-scheduled UCBs are keeping current account/minimum required balance for clearing purpose with relatively larger non-scheduled bank for sub-member clearing arrangements, it is possible that the financial position of the non-scheduled UCB with whom such deposits are kept, could take a hit due to unexpected downturn in its business and which could have an effect on the financial position for the depositing bank and its business. Non-scheduled UCBs, which have exposures to other non-scheduled UCBs on account of clearing arrangements may, therefore, review their exposures to such banks periodically based on their published balance sheet and Profit and Loss Account statements.

### **13.3.2 Prudential inter-bank counter party limit**

Within the prudential inter-bank (gross) exposure limit, deposits with any single bank should not exceed 5 per cent of the depositing bank's total deposit liabilities as on March 31 of the previous year.

### **13.3.3 Exemptions from the prudential limit**

The balances maintained by UCBs with the Central Cooperative Bank of the district concerned or with the State Cooperative Bank of the State concerned are treated as SLR under the provisions of Section 24 of the Banking Regulation Act, 1949(AACS). These deposits are exempted from the prudential limit on inter-bank exposure limits [Paragraph 13.3.1 & 13.3.2].

13.3.4 The placement of deposits by non-scheduled UCBs with scheduled UCBs would continue to be as per the guidelines issued vide our circular BPD PCB Cir 46/16.20.00/2002-03 dated May 17, 2003. However, the amount of deposits placed by a non-scheduled UCB with any scheduled UCB should not exceed 5% of the depositing bank's total deposit liabilities as on March 31 of previous year. The total inter-UCB deposits accepted by a scheduled UCB should not exceed 10% of its total deposit liabilities as on 31st March of the previous financial year.

13.3.5 Keeping in view the prescribed prudential limits, UCBs may formulate a policy taking into account their funds position, liquidity and other needs for placement of deposits with other banks, the cost of funds, expected rate of return and interest margin on such deposits, the counter party risk, etc and place it before their Board of Directors. The Board should review the position at least at half yearly intervals.

## **14 INTERNAL CONTROL AND INVESTMENT ACCOUNTING**

### **14.1 Internal Control**

- 14.1.1 For every transaction entered into, a deal slip should be prepared which should contain details relating to name of the counter-party, whether it is direct deal or through a broker, and if through a broker, details of security, amount, price, contract date and time. For each deal, there must be a system of issue of confirmation to the counterparty.
- 14.1.2 The Deal Slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for.
- 14.1.3 On the basis of vouchers passed after verification of actual contract notes received from the broker/counter-party and confirmation of the deal by the counter-party the Accounts Section should independently write the books of accounts.
- 14.1.4 A record of broker-wise details of deals put through and brokerage paid should be maintained.
- 14.1.5 The Internal Audit Department should audit the transactions in securities on an ongoing basis and monitor compliance with the laid down management policies and prescribed procedures and report the deficiencies directly to the management of the bank.

### **14.2 Investment Accounting**

#### **14.2.1 Accounting Standards**

In order to bring about uniform accounting practice among banks in booking of income on units of mutual funds (debt mutual funds and money market mutual fund) and equity of AIFIs, as a prudent practice, such income should be booked on cash basis and not on accrual basis. However, in respect of income from Government Securities/bonds of public sector undertakings and AIFIs, where interest rates on the instruments are predetermined, income may be booked on accrual basis, provided interest is serviced regularly and is not in arrears.

#### **14.2.2 Broken Period Interest - Government and Other Approved Securities**

- 14.2.2.1 With a view to bringing about uniformity in the accounting treatment of broken period interest on Government Securities paid at the time of acquisition and to comply with the Accounting Standards prescribed by the Institute of Chartered Accountants of India, the banks should 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.

14.2.2.2 It is to be noted that the above accounting treatment does not take into account taxation implications and hence the bank should comply with the requirements of income tax authorities in the manner prescribed by them.

**14.2.2.3 Accounting Procedure for investments in Government Securities – Settlement Date Accounting**

With a view to bringing in uniformity in the practice adopted by banks while accounting for investments in Government Securities, it has been decided that banks should follow "Settlement Date" accounting for recording both outright and ready forward purchase and sale transactions in Government Securities.

## **15 RECOMMENDATIONS OF GHOSH COMMITTEE**

The following recommendations made by the Ghosh Committee should be implemented by the banks to prevent frauds and malpractices:

### **15.1 Concurrent Audit**

15.1.1 In view of the possibility of abuse, treasury functions viz. investments, funds management including inter-bank borrowings, bills rediscounting, etc. should be subjected to concurrent audit and the results of audit should be placed before the Chairman and Managing Director of the bank at prescribed intervals.

15.1.2 It is the primary responsibility of the banks to ensure that there are adequate audit procedures for ensuring proper compliance of the instructions in regard to the conduct of investment portfolio.

15.1.3 The concurrent audit should cover the following aspects:

- (i) Ensure that in respect of purchase and sale of securities the concerned department has acted within its delegated powers.
- (ii) Ensure that the securities other than those in SGL and in demat form, as shown in the books, are physically held.
- (iii) Ensure that the Accounting Unit is complying with the guidelines regarding BRs, SGL forms, delivery of scrips, documentation and accounting.
- (iv) Ensure that the sale or purchase transactions are done at rates beneficial to the bank.
- (v) Scrutinise conformity with broker limits and include excesses observed in their periodical reports.

15.1.4 Banks should formulate internal control guidelines for acquisition of permissible shares, debentures and PSU bonds in the secondary market duly approved by their Boards.

## **15.2 Internal Audit**

Purchase and sale of Government Securities etc. should be separately subjected to audit by internal auditors (and in the absence of internal auditors by Chartered Accountants out of the panel maintained by the Registrar of Co-operative Societies) and the results of their audit should be placed before the Board of Directors once in every quarter.

## **15.3 Review**

Banks should undertake a half-yearly review (as of March 31 and September 30) of their investment portfolio, which should, apart from other operational aspects of investment portfolio, clearly indicate and certify adherence to the laid down internal investment policy and procedures and Reserve Bank's guidelines, and put up the same before the Board within a month. Such review reports should be forwarded to Regional Office of Urban Banks Department by May 15 / November 15 respectively.

## **15.4 Penalties for Violation**

Banks should scrupulously follow the above instructions. Any violation of these instructions will invite penal action against defaulting banks which could include raising of reserve requirements, withdrawal of refinance from the Reserve Bank, denial of access to money markets, denial of new branches/extension counters and advising the President of Clearing House to take appropriate action including suspension of membership of the Clearing House.

## **16 Categorisation of Investments**

16.1 UCBs are required to classify their entire investment portfolio (including SLR and Non-SLR securities) under three categories viz. –

- (i) Held to Maturity (HTM)
- (ii) Available for Sale (AFS)
- (iii) Held for Trading (HFT)

Banks should decide the category of the investment at the time of acquisition and the decision should be recorded on the investment proposals. However, as indicated in paragraph 13.1.3 (g) all fresh investments under Non-SLR category should be classified under HFT / AFS categories only and marked to market as applicable to these categories of investments. However, investments in the long term bonds

issued by companies engaged in executing infrastructure projects and having a minimum residual maturity of seven years may be classified under HTM category.

## **16.2 Held to Maturity**

16.2.1 Securities acquired by the banks with the intention to hold them up to maturity will be classified under HTM category.

16.2.2 The investments included under HTM category should not exceed 25 per cent of the bank's total investments. However, banks are permitted to exceed the limit of 25 per cent of their total investments under HTM category provided,

- (a) the excess comprises only of SLR securities
- (b) the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

## **16.3 Held for Trading**

16.3.1 Securities acquired by the banks with the intention to trade by taking advantage of the short-term price/interest rate movements will be classified under HFT category.

16.3.2 If banks are not able to sell the security within 90 days due to exceptional circumstances such as tight liquidity conditions, or extreme volatility, or market becoming unidirectional, the security should be shifted to the AFS category, subject to conditions stipulated in paragraphs 16.5.3 and 16.5.4 below.

## **16.4 Available for Sale**

16.4.1 Securities which do not fall within the above two categories will be classified under AFS category.

16.4.2 Banks have the freedom to decide on the extent of holdings under AFS category. This may be decided by them considering various aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, capital position, etc.

(Profit or loss on sale of investments in HFT & AFS categories should be taken to Profit and Loss Account).

## **16.5 Shifting of investments**

16.5.1 Banks may shift investments to/from HTM category with the approval of the Board of Directors once in a year. Such shifting will



normally be allowed at the beginning of the accounting year. No further shifting to/from this category will be allowed during the remaining part of that accounting year.

- 16.5.2 Banks may shift investments from AFS category to HFT category with the approval of their Board of Directors. In case of exigencies, such shifting may be done with the approval of the Chief Executive of the Bank, but should be ratified by the Board of Directors.
- 16.5.3 shifting of investments from HFT category to AFS category is generally not allowed. However, it will be permitted only under exceptional circumstances such as mentioned in paragraph 16.3.2 above, subject to depreciation, if any, applicable on the date of transfer, with the approval of the Board of Directors/Investment Committee.
- 16.5.4 Transfer of scrips from one category to another, under all circumstances, should be done at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer should be fully provided for.

## **16.6 Classification of Investments in the Balance Sheet**

For the purpose of Balance Sheet, the investments should continue to be classified in the following categories :

- (i) Government securities
- (ii) Other approved securities
- (iii) Shares
- (iv) Bonds of PSU
- (v) Others

## **17 Valuation of investments**

### **17.1 Valuation Standards**

- 17.1.1 Investments classified under HTM category need not be marked to market and will be carried at acquisition cost unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity.
- 17.1.2 The individual scrip in the AFS category will be marked to market at the year-end or at more frequent intervals. The book value of the individual securities would not undergo any change after the revaluation.
- 17.1.3 The individual scrip in the HFT category will be marked to market at monthly or at more frequent intervals. The book value of individual

securities in this category would not undergo any change after marking to market.

*Note : Securities under AFS and HFT categories shall be valued scrip-wise and depreciation/appreciation shall be aggregated for each classification as indicated at paragraph 16.6 above separately for AFS and HFT. Net depreciation, if any, shall be provided for. Net appreciation, if any, should be ignored. Net depreciation required to be provided for in any one classification should not be reduced on account of net appreciation in any other classification. Similarly net depreciation for any classification in one category should not be reduced from appreciation in similar classification in another category.*

17.1.4 (i) Investment Depreciation Reserve required to be created on account of depreciation in the value of investments held under 'AFS' or 'HFT' categories in any year should be debited to the Profit & Loss Account and an equivalent amount (net of tax benefit, if any, and net of consequent reduction in the transfer to Statutory Reserve) or the balance available in the IFR Account, whichever is less, shall be transferred from the IFR Account to Profit & Loss Account.

(ii) In the event that IDR created on account of depreciation in investments is found to be in excess of the required amount in any year, the excess should 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) should be appropriated to the IFR Account to be utilised to meet future depreciation requirement for investments.

(iii) The amounts debited to the Profit & Loss Account for depreciation provision and the amount credited to the Profit & Loss Account for reversal of excess provision should be debited and credited respectively under the head "Expenditure - Provisions & Contingencies".

(iv) The amounts appropriated from the Profit & Loss Account/ to IFR and the amount transferred from the IFR to the Profit & Loss Account should be shown as 'below the line' items after determining the profit for the year.

17.1.5 It is clarified that while the individual scrips in the HFT category will continue to be marked at monthly or at more frequent intervals, the book value of the individual securities in this category would not undergo any change after marking to market. While the net depreciation in the value of investments, if any, shall be provided for; the net appreciation, if any, should be ignored. Net depreciation required to be provided for in any one category should not be netted with net appreciation in any other category.

- 17.1.6 In respect of securities included in any of the three categories where interest/principal is in arrears, the banks should not reckon income on the securities and should also make appropriate provisions for the depreciation in the value of the investment. The banks should not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

## **17.2 Market Value**

### **17.2.1 Quoted Securities**

The 'market value' for the purpose of periodical valuation of investments included in the AFS and the HFT categories would be the market price of the scrip as available from the trades/quotes on the stock exchanges, SGL account transactions, price list of Reserve Bank, prices declared by PDAI jointly with FIMMDA.

### **17.2.2 Unquoted SLR Securities**

In respect of unquoted securities, the procedure as detailed below should be adopted.

#### **(i) Central Government Securities**

- (a) The Reserve Bank will not announce the YTM rates for unquoted Government securities, for the purpose of valuation of investments by banks. The banks should value the unquoted Central Government securities on the basis of the prices/YTM rates put out by the PDAI/FIMMDA at periodical intervals.
- (b) The 6.00 per cent Capital Indexed Bonds may be valued at "cost" which may be reckoned by using the index ratio calculated by taking the Wholesale Price Index (WPI) with a three months' lag. For example, the WPI for the month of November 1997 may be used to calculate the index ratio for month of March 1998. An illustrative example is given below:

The bonds were issued in December 1997 at par. The WPI for August 1997 was taken as the Base WPI. Similarly, the Reference WPI for payment of redemption value in December 2002 is taken as the WPI for August 2002. Thus, a clear 3 months' lag is followed for indexation of capital. The same principle can be applied for arriving at 'Cost' for the purpose of valuation of Capital Indexed Bonds. If the valuation of the bond is to be done in March 1998, the index ratio can be calculated by taking the WPI for November 1997 as the Reference WPI. While for every quarter ending March of a year, the numerator will take WPI of November of the previous year, for other quarters ending

in months viz. June, September and December, every year, the index ratio will take in the numerator WPI for February, May and August of the respective years.

Assuming that the Monthly Average Index of Wholesale Prices (1981 - 82 = 100) for November 1997 is 329.90. The Reference WPI is 329.90. The base WPI, i.e. the WPI for August 1997 is 326.00. The calculation of 'Cost' of Capital Indexed Bonds is illustrated below:

$$\begin{aligned}
 \text{Index Ratio for} & & \text{WPI for November 1997} \\
 \text{March 1998} & = & \frac{\text{-----}}{\text{Base WPI}} \\
 & & \\
 & = & 329.9 / 326.00 \\
 & = & 1.01196 \text{ or } 1.01 \\
 & & \text{(rounded to two decimal places)}
 \end{aligned}$$

Cost of the bonds for valuation as on 31 March 1998 Rs. 100 x 1.01 = Rs. 101.00.

- (c) It is clarified that the reckoning of number of years for the purpose of deciding upon appropriate 'Yield To Maturity' (YTM) Rate be done by rounding off the fractional period of a year to the nearest completed year.
- (d) As regards valuation of other unquoted securities including PSU bonds, banks should uniformly follow YTM method for arriving at valuation of unquoted securities.

(ii) Treasury Bills should be valued at carrying cost.

(iii) State Government Securities

State Government securities will 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 PDAI/FIMMDA periodically.

(iv) Other Approved Securities

Other approved securities will 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 PDAI/FIMMDA periodically.

### 17.2.3 Unquoted Non-SLR securities

#### (i) Debentures/Bonds

All debentures/bonds other than debentures/ bonds which are in the nature of advance should be valued on the YTM basis. Such debentures/bonds may be of different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government securities as put out by PDAI/FIMMDA periodically. The mark-up will be graded according to the ratings assigned to the debentures/bonds by the rating agencies subject to the following :

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

#### (iii) Shares of Co-operative Institutions

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

(iv) Valuation of Non-SLR securities issued by the Government of India

- (a) Over the years, the Government of India has, from time to time, issued several special securities which do not qualify for the purpose of complying with the SLR requirements of UCBs. Such Government securities are governed by a separate set of terms and conditions and entail a higher degree of illiquidity spread. Currently, the guidelines issued by FIMMDA regarding the valuation of such Non-SLR securities provide that such securities be valued by applying a mark-up of 50 basis points (bps) above the corresponding yield on Government of India securities.
- (b) The issue of valuation of such special securities has since been examined. It has been decided that, for the limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities. This amendment would come into force from the financial year 2008–09.
- (c) It may be noted, that at present, such special securities comprise: Oil Bonds, Fertiliser Bonds, bonds issued to the State Bank of India (during the recent rights issue), Unit Trust of India, Industrial Finance Corporation of India Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.

#### **17.2.4 Units of Mutual funds**

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

#### **18 INVESTMENT FLUCTUATION RESERVE (IFR)**

With a view to build up adequate reserves to guard against market risks :

- 18.1 Banks should build up IFR out of realised gains on sale of investments, and subject to available net profit, of a minimum of 5 per cent of the investment portfolio. This minimum requirement

should be computed with reference to investments in two categories, viz. HFT and AFS. It will not be necessary to include investment under HTM category for the purpose. However, banks are free to build up a higher percentage of IFR up to 10 per cent of the portfolio depending on the size and composition of their portfolio, with the approval of their Board of Directors.

- 18.2 Banks should transfer maximum amount of the gains realised on sale of investment in securities to the IFR. Transfer to IFR shall be as an appropriation of net profit after appropriation to Statutory Reserve.
- 18.3 The IFR, consisting of realised gains from the sale of investments from the two categories, viz., HTF and AFS, would be eligible for inclusion in Tier II capital.
- 18.4 Transfer from IFR to the Profit and Loss Account to meet depreciation requirement on investments would be a 'below the line' extraordinary item.
- 18.5 Banks should ensure that the unrealised gains on valuation of the investment portfolio are not taken to the Income Account or to the IFR.
- 18.6 Banks may utilise the amount held in IFR to meet, in future, the depreciation requirement on investment in securities.
- 18.7 Creation of IFR as per the above guidelines is mandatory for UCBs having aggregate Demand and Time Liabilities of Rs. 100 crore and above, and optional for smaller banks.
- 18.8 Distinction between IFR and Investment Depreciation Reserve (IDR)**

It may be noted that IFR is created out of appropriation from the realised net profits and forms part of the reserves of the bank qualifying under Tier II capital.

IDR is a provision created by charging diminution in investment value to Profit and Loss Account. While the amount held in IFR should be shown in the balance sheet as such, the amount held in IDR should be reported as Contingent provisions against depreciation in investment.

**Certain clarifications on brokers' limits**  
[Paragraph 7.3]

<b>Sr. No.</b>	<b>Issue raised</b>	<b>Response</b>
1.	The year should be calendar year or financial year?	Since banks close their accounts at the end of March, it may be more convenient to follow the financial year. However, the banks may follow calendar year or any other period of 12 months provided, if it is consistently followed in future.
2.	Whether to arrive at the total transactions of the year, transactions entered into directly with counter-parties, i.e. where no brokers are involved would also be taken into account?	Not necessary. However, if there are any direct deals with the brokers as purchasers or sellers the same would have to be included in the total transactions to arrive at the limit of transactions to be done through an individual broker.
3.	Whether in case of ready forward deals both the legs of the deals i.e. purchase as well as sale will be included to arrive at the volume of total transactions?	Yes
4.	Whether central loan/state loan/treasury bills etc. purchased through direct subscriptions/auctions will be included in the volume of total transactions?	No, as brokers are not involved as intermediaries.
5.	It is possible that even though bank considers that a particular broker has touched the prescribed limit of 5%, he may come with an offer during the remaining period of the year which the bank may find to its advantage as compared to offers received from the other brokers who have not yet done business upto the prescribed	If the offer received is more advantageous the limit for the broker may be exceeded and the reasons therefore recorded and approval of the competent authority/Board obtained post facto.



	limit.	
6.	Whether the transactions conducted on behalf of the clients would also be included in the total transactions of the year?	Yes, if they are conducted through the brokers.
7.	For a bank which rarely deals through brokers and consequently the volume of business is small maintaining the broker-wise limit of 5% may mean splitting the orders in small values amongst different brokers and there may also arise price differential.	There may be no need to split an order. If any deal causes, the particular broker's share to exceed 5% limit, our circular provides the necessary flexibility inasmuch as Board's post facto approval can be obtained.
8.	During the course of the year, it may not be possible to reasonably predict what will be the total quantum of transactions through brokers as a result of which there could be deviation in complying with the norm of 5%.	The bank may get post facto approval from the Board after explaining to it, the circumstances in which the limit was exceeded.
9.	Some of the small private sector banks have mentioned that where the volume of business particularly, the transactions done through brokers is small the observance of 5% limit may be difficult. A suggestion has, therefore, been made that the limit may be required to be observed if the business done through a broker, exceeds a cut-off point of say Rs.10 crore.	As already observed the limit of 5% can be exceeded subject to reporting the transactions to the competent authority post facto. Hence, no change in instructions is considered necessary.
10.	Whether the limit is to be observed with reference to total transactions of the previous year as the total transactions of the current year would be known only at the end of the year?	The limit has to be observed with reference to the year under review. While operating the limit, the bank should be in view the expected turnover of the current year which may be based on turnover of the previous year and anticipated rise or fall in the volume of business in the current year.

**Definitions of certain terms**

*[Paragraph 13.1.3]*

1. With a view to imparting clarity and to ensure that there is no divergence in the implementation of the guidelines, some of the terms used in the guidelines are defined below.
2. A security will be treated as rated if it is subjected to a detailed rating exercise by an external rating agency in India which is registered with SEBI and is carrying a current or valid rating. The rating relied upon will be deemed to be current or valid if:
  - (i) the credit rating letter relied upon is not more than one month old on the date of opening of the issue, and
  - (ii) the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and
  - (iii) the rating letter and the rating rationale is a part of the offer document.
  - (iv) In the case of secondary market acquisition, the credit rating of the issue should be in force and confirmed from the monthly bulletin published by the respective rating agency.
  - (v) Securities which do not have a current or valid rating by an external rating agency would be deemed as unrated securities.
3. The investment grade ratings awarded by each of the external rating agencies operating in India would be identified by the IBA/ FIMMDA. These would also be reviewed by IBA/ FIMMDA at least once a year.
4. A 'listed' debt security is a security which is listed in a stock exchange. If not so, it is an 'unlisted' debt security.
5. A Non Performing Investment (NPI), similar to a Non Performing Advance (NPA), is one where :
  - (a) Interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 180 days. The delinquency period has become 90 days with effect from March 31, 2004.
  - (b) if any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as NPI.

**Disclosure Requirements**  
[Paragraph 13.1.6]

**i) Issuer composition of Non SLR investments**

(Rs. in crore)

No.	Issuer	Amount	Extent of 'below investment grade' Securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1	2	3	4	5	6
1	PSUs				
2	FIs				
3	Public sector Banks				
4.	Mutual Funds				
5.	Others				
6.	Provision held towards depreciation		X X X	X X X	X X X
	<b>Total *</b>				

**NOTE :**

1. \* Total under column 3 should tally with the total of investments in Schedule 8 to the balance sheet:
2. Amounts reported under columns 4, 5, and 6 above may not be mutually exclusive.

**ii) Non performing Non-SLR investments**

Particulars	Amount (Rs. Crore)
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

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**Guidelines for accounting of Repo/Reverse Repo transactions**  
(paragraph 12)

1. The Reserve Bank of India (Amendment) Act, 2006 (Act No. 26 of 2006) provides a legal definition of 'repo' and 'reverse repo' (vide sub-sections (c) and (d) of section 45 U of Chapter III D of the Act) as an instrument for borrowing (lending) funds by selling (purchasing) securities with an agreement to repurchase (resell) the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed (lent). Accordingly, to bring such transactions onto the balance sheet in their true economic sense and enhance transparency, the accounting guidelines have been reviewed and the revised guidelines are given below:
2. **Applicability of the accounting guidelines:** The revised accounting guidelines will apply to market repo transactions in Government Securities and corporate debt securities. These accounting norms will, however, not apply to repo / reverse repo transactions conducted under the Liquidity Adjustment Facility (LAF) with Reserve Bank.
3. Market participants may undertake repos from any of the three categories of investments, viz., **Held for Trading, Available for Sale** and **Held to Maturity**.
4. The economic essence of a repo transaction, viz., borrowing (lending) of funds by selling (purchasing) securities shall be reflected in the books of the repo participants, by accounting the same as collateralised lending and borrowing transaction, with an agreement to repurchase, on the agreed terms. Accordingly, the repo seller, i.e., borrower of funds in the first leg, shall not exclude the securities sold under repo but continue to carry the same in his investment account (illustration given in the Annex IV (a) & IV (b)) reflecting his continued economic interest in the securities during the repo period. On the other hand, the repo buyer, i.e., lender of funds in the first leg, shall not include the securities purchased under repo in his investment account but show it in a separate sub-head (Annex (IV) (a) & (IV) (b)). The securities would, however, be transferred from the repo seller to repo buyer as in the case of normal outright sale/purchase transactions and such movement of securities shall be reflected using the Repo/Reverse Repo Accounts and contra entries. In the case of repo seller, the Repo Account is credited in the first leg for the securities sold (funds received), while the same is reversed when the securities are repurchased in the second leg. Similarly, in the case of repo buyer, the Reverse Repo Account is debited for the amount of securities purchased (funds lent) and the same is reversed in the second leg when the securities are sold back.

5. The first leg of the repo transaction should be contracted at the prevailing market rates. The reversal (second leg) of the transaction shall be such that the difference between the consideration amounts of first and second legs should reflect the repo interest.
6. The accounting principles to be followed while accounting for repo / reverse repo transactions are as under:

**(i) Coupon /Discount**

- (a) The repo seller shall continue to accrue the coupon/discount on the securities sold under repo even during the repo period while the repo buyer shall not accrue the same.
- (b) In case the interest payment date of the security offered under repo falls within the repo period, the coupons received by the buyer of the security should be passed on to the seller of the security on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.

**(ii) Repo Interest Income / Expenditure**

After the second leg of the repo / reverse repo transaction is over,

- (a) the difference between consideration amounts of the first leg and second leg of the repo shall be reckoned as Repo Interest Income / Expenditure in the books of the repo buyer / seller respectively; and
- (b) the balance outstanding in the Repo Interest Income / Expenditure account should be transferred to the Profit and Loss account as an income or an expenditure . As regards repo / reverse repo transactions *outstanding on the balance sheet date*, only the accrued income / expenditure *till the balance sheet date* should be taken to the Profit and Loss account. Any repo income / expenditure for the remaining period should be reckoned for the next accounting period.

**(iii) Marking to Market**

The repo seller shall continue to mark to market the securities sold under repo transactions as per the *investment classification of the security*. To illustrate, in case the securities sold by banks under repo transactions are out of the **Available for Sale** category, then the mark to market valuation for such securities should be done at least once a quarter. For entities which do not follow any investment classification norms, the *valuation for securities sold under repo transactions may be in accordance with the valuation norms followed by them in respect of securities of similar nature*.

## 7. Accounting Methodology

The accounting methodology to be followed along with the illustrations is given in **Annexes IV (a) and IV (b)**. Participants using more stringent accounting principles may continue using the same principles. Further, to obviate the disputes arising out of repo transactions, the participants should enter into bilateral Master Repo Agreement as per the documentation finalized by FIMMDA. It is clarified that the Master Repo Agreement finalised by FIMMDA is not mandatory for repo transactions in Government Securities settling through a Central Counter Party (CCP) [eg. Clearing Corporation of India Limited (CCIL)], having various safeguards like haircut, MTM price, margin, Multilateral netting, closing out, right to set off, settlement guarantee fund / collaterals, defaults, risk management and dispute resolution / arbitration etc. However, Master Repo Agreement is mandatory for repo transactions in Corporate Debt Securities, which is settled bilaterally without involving a CCP.

## 8. Classification of Accounts

Banks shall classify the balances in Repo Account under Schedule 4 under item I (ii) or I (iii) as appropriate. Similarly, the balances in Reverse Repo Account shall be classified under Schedule 7 under item I (ii) a or I (ii) b as appropriate. The balances in Repo interest expenditure Account and Reverse Repo interest income Account shall be classified under Schedule 15 (under item II or III as appropriate) and under Schedule 13 (under item III or IV as appropriate) respectively. The balance sheet classification for other participants shall be governed by the guidelines issued by the respective regulators.

## 9. Disclosure

The following disclosures should be made by banks in the “Notes on Accounts’ to the Balance Sheet:

(in face value terms)  
(Rs. In crore)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as on March 31
Securities sold under repo				
(i) Government Securities				
(ii) Corporate debt securities				
Securities purchased under reverse repo				
(iii) Government Securities				
(iv) Corporate debt securities				

## **10. Treatment for Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)**

### **(i) Government securities:**

The regulatory treatment of market repo transactions in Government securities will continue as hitherto, i.e., the funds borrowed under repo will continue to be exempt from CRR/SLR computation and the security acquired under reverse repo shall continue to be eligible for SLR.

### **(ii) Corporate debt securities:**

In respect of repo transactions in corporate debt securities,

(a) The amount borrowed by a bank through repo shall be reckoned as part of its DTL and the same shall attract CRR/SLR.

(b) The borrowings of a bank through repo in corporate bonds shall be reckoned as its liabilities for reserve requirement and, to the extent these liabilities are to the banking system, they shall be netted as per clause (d) of the explanation under section 42(1) of the Reserve Bank of India Act, 1934. Such borrowings shall, however, be subject to the prudential limits for inter-bank liabilities

## **11. Effective Date**

The revised accounting principles for market repo will be applicable from April 01, 2010. The outstanding repo/reverse repo transactions would however, continue to be accounted as hitherto, till maturity.

## **Annex IV (a)**

### **Recommended Accounting Methodology for accounting of Repo / Reverse Repo transactions** *(paragraph 7 of Annex IV)*

- (i) The following accounts may be maintained , viz. i) Repo Account, ii) Reverse Repo Account, iii) Reverse Repo Interest Income Account, iv) Repo Interest Expenditure Account v) Reverse Repo Interest Receivable Account and vi) Repo Interest Payable Account.
- (ii) In addition to the above, the following 'contra' accounts may also be maintained, viz. i) Securities Sold under Repo Account, (ii) Securities Purchased under Reverse Repo Account, (iii) Securities Receivable under Repo Account and (iv) Securities Deliverable under Reverse Repo Account.

#### **Repo**

- (iii) In a repo transaction, the securities should be sold in the first leg at market related prices and re-purchased in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account.
- (iv) Though the securities are not excluded from the repo seller's investment account and not included in the repo buyer's investment account, the transfer of securities shall be reflected by using the necessary contra entries.

#### **Reverse Repo**

- (v) In a reverse repo transaction, the securities should be purchased in the first leg at prevailing market prices and sold in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The purchase and sale should be reflected in the Reverse Repo Account.
- (vi) The balances in the Reverse Repo Account shall not be a part of the Investment Account for balance sheet purposes but can be reckoned for SLR purposes if the securities acquired under reverse repo transactions are approved securities.

#### **Other aspects relating to Repo/Reverse Repo**

- (vii) In case the interest payment date of the securities sold under repo falls within the repo period, the coupons received by the buyer of the security should be passed on to the seller on the date of receipt as the cash consideration payable by the seller in the second leg does not include



any intervening cash flows.

- (viii) To reflect the accrual of interest in respect of the outstanding repo transactions at the end of the accounting period, appropriate entries should be passed in the Profit and Loss account to reflect Repo Interest Income / Expenditure in the books of the buyer / seller respectively and the same should be debited / credited as an expenditure payable/income receivable. Such entries passed should be reversed on the first working day of the next accounting period.
- (ix) Repo seller continues to accrue coupon/discount as the case may be, even during the repo period while the repo buyer shall not accrue the same.
- (x) Illustrative examples are given in Annex IV (b)

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**Illustrative examples for accounting of Repo / Reverse repo transactions**  
(paragraph 7 of Annex IV)

While in the body of the circular, the term "repo" is used generically to include both repo and reverse repo (which is simply a mirror image of a repo transaction), in this Annex the accounting guidelines have been set out separately for repo and reverse repo for clarity.

**A. Repo/Reverse Repo of dated security**

**1. Details of Repo in a coupon bearing security:**

Security offered under repo	6.35% 2020	
Coupon payment dates	02 January and 02 July	
Market Price of security	Rs.90.9100	<b>(1)</b>
Date of the repo	28-Mar-2010	
Repo interest rate	5.00%	
Tenor of the repo	5 days	
Reversal date for the repo	02-Apr-2010	
Broken period interest for the first leg*	$6.35\% \times 86 / 360 \times 100 = 1.5169$	<b>(2)</b>
Cash consideration for the first leg	$(1) + (2) = 92.4269$	<b>(3)</b>
Repo interest**	$92.4269 \times 5/365 \times 5.00\% = 0.0633$	<b>(4)</b>
Cash Consideration for the second leg	$(3)+(4) = 92.4269 + 0.0633 = 92.4902$	

\* Using 30/360 day count convention

\*\* Using Actual/365 day count convention

**2. Accounting for Repo Seller (Borrower of Funds)**

**First leg**

	<b>Debit</b>	<b>Credit</b>
Cash	92.4269	
Repo A/c		92.4269
Securities recoverable under Repo A/c (by contra)	92.4269	
Securities sold under Repo A/c (by contra)		92.4269

**Second Leg**

	<b>Debit</b>	<b>Credit</b>
Repo A/c	92.4269	
Repo Interest Expenditure A/c	0.0633	
Cash A/c		92.4902
Securities sold under Repo A/c (by contra)	92.4269	
Securities Receivable under Repo A/c (by contra)		92.4269

**3. Accounting for Repo Buyer (Lender of Funds)**

**First leg**

	<b>Debit</b>	<b>Credit</b>
Reverse Repo A/c	92.4269	
Cash A/c		92.4269
Securities purchased under Reverse Repo A/c (by contra)	92.4269	
Securities Deliverable under Reverse Repo A/c (by contra)		92.4269

**Second Leg**

	<b>Debit</b>	<b>Credit</b>
Cash A/c	92.4902	
Reverse Repo A/c		92.4269
Reverse Repo Interest Income A/c		0.0633
Securities Deliverable under Reverse Repo A/c (by contra)	92.4269	
Securities Purchased under Reverse Repo A/c (by contra)		92.4269

**4. Ledger entries for the adjustment accounts**

**Securities Receivable under Repo A/c**

<b>Debit</b>		<b>Credit</b>	
To Securities Sold under Repo A/c (repo 1 <sup>st</sup> leg)	92.4269	By Securities Sold under Repo A/c (repo 2 <sup>nd</sup> leg)	92.4269

**Securities Sold under Repo A/c**

Debit		Credit	
To Securities Receivable under Repo A/c (repo 2 <sup>nd</sup> leg)	92.4269	By Securities Receivable under Repo A/c (repo 1 <sup>st</sup> leg)	92.4269

**Securities Purchased under Repo A/c**

Debit		Credit	
To Securities Deliverable under Reverse Repo A/c (reverse repo 2 <sup>nd</sup> leg)	92.4269	By Securities Deliverable under Reverse Repo A/c (reverse repo 2 <sup>nd</sup> leg)	92.4269

**Securities Deliverable under Repo A/c**

Debit		Credit	
To Securities purchased under Reverse Repo A/c (reverse repo 2 <sup>nd</sup> leg)	92.4269	By Securities Purchased under Reverse Repo A/c (reverse repo 1 <sup>st</sup> leg)	92.4269

5. If the balance sheet date falls during the tenor of the repo, participants may use the transit accounts, i.e., Repo Interest Payable A/c and Reverse Repo Interest Receivable A/c to record the accrued interest and reverse the same the following day. The balances in the repo interest receivable and payable shall be taken to the P & L Account with appropriate entries passed in the Balance sheet, as below:-

Transaction Leg	1st leg	Balance Sheet Date	2nd leg
Dates	28-Mar-10	31-Mar-10	02-Apr-10

**(a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-10**

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.0506 (being the repo interest for 4 days)	
Repo Interest Payable A/c		0.0506

Account Head	Debit	Credit
P & L A/c	0.0506	
Repo Interest Expenditure A/c		0.0506

**(b) Reversal of entries in the Books of the Repo Seller (borrower of funds) on 01-Apr-10**

Account Head	Debit	Credit
Repo Interest Payable A/c	0.0506	
Repo Interest Expenditure A/c		0.0506

**(c) Entries in books of Repo Buyer (Lender of Funds) on 31-Mar-10**

Account Head	Debit	Credit
Reverse Repo Interest Receivable A/c	0.0506	
Reverse Repo Interest Income A/c [Balances under the account to be transferred to P&L]		0.0506 (being the repo interest for 4 days)

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0506	
P & L A/c		0.0506

**(d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-10**

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0506	
Reverse Repo Interest Receivable A/c		0.0506

**B. Repo/Reverse Repo of Treasury Bill**

**1. Details of Repo on a Treasury Bill**

Security offered under Repo	GOI 90 day Treasury Bill maturing on 07 May 2010	
Price of the security offered under Repo	Rs. 99.0496	(1)
Date of the Repo	28-Mar-2010	
Repo interest rate	5%	
Tenor of the repo	5 days	
Total cash consideration for the first leg	99.0496	(2)
Repo interest*	$99.0496 \times 5\% \times 5/365 = 0.0678$	(3)
Cash consideration for the second leg	$(2)+(3) = 99.0496 + 0.0678 = 99.1174$	

\* Using actual/365 day count convention

## 2. Accounting for Repo Seller (Borrower of Funds)

### First leg

	Debit	Credit
Cash	99.0496	
Repo A/c		99.0496
Securities Receivable under Repo A/c (by contra)	99.0496	
Securities Sold under Repo A/c (by contra)		99.0496

### Second leg

	Debit	Credit
Repo A/c	99.0496	
Repo Interest Expenditure A/c	0.0678	
Cash A/c		99.1174
Securities Sold under Repo A/c (by contra)	99.0496	
Securities Receivable under Repo A/c (by contra)		99.0496

## 3. Accounting for Repo Buyer (Lender of Funds)

### First leg

	Debit	Credit
Reverse Repo A/c	99.0496	
Cash A/c		99.0496
Securities Purchased under Reverse Repo A/c (by contra)	99.0496	
Securities Deliverable under Reverse Repo A/c (by contra)		99.0496

### Second leg

	Debit	Credit
Cash A/c	99.1174	
Reverse Repo A/c		99.0496
Reverse Repo Interest Income A/c		0.0678
Securities Deliverable under Reverse Repo A/c (by contra)	99.0496	
Securities Purchased under Reverse Repo A/c (by contra)		99.0496

## 4. Ledger entries for the adjustment accounts

### Securities Receivable under Repo A/c

Debit		Credit	
To Securities Sold under Repo A/c (repo 1 <sup>st</sup> leg)	99.0496	By Securities Sold under Repo A/c (repo 2 <sup>nd</sup> leg)	99.0496

**Securities Sold under Repo A/c**

Debit		Credit	
To Securities Receivable under Repo A/c (repo 2 <sup>nd</sup> leg)	99.0496	By Securities Receivable under Repo A/c (repo 1 <sup>st</sup> leg)	99.0496

**Securities Purchased under Repo A/c**

Debit		Credit	
To Securities Deliverable under Reverse Repo A/c (reverse repo 1 <sup>st</sup> leg)	99.0496	By Securities Deliverable under Reverse Repo A/c (reverse repo 2 <sup>nd</sup> leg)	99.0496

**Securities Deliverable under Reverse Repo A/c**

Debit		Credit	
To Securities Purchased under Repo A/c (reverse repo 2 <sup>nd</sup> leg)	99.0496	By Securities Purchased under Reverse Repo A/c (reverse repo 1 <sup>st</sup> leg)	99.0496

5. If the balance sheet date falls during the tenor of the repo, participants may use the transit accounts, i.e. Repo Interest Payable A/c and Reverse Repo Interest Receivable A/c to record the accrued interest and reverse the same the following day. The balances in the repo interest receivable and payable shall be taken to the P & L Account with appropriate entries passed in the Balance sheet, as below:-

Transaction Leg	1 <sup>st</sup> leg	Balance Sheet Date	2 <sup>nd</sup> leg
Dates	28-Mar-10	31-Mar-10	02-Apr-10

**(a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-10**

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.0543 (being the repo interest for 4 days)	
Repo Interest Payable A/c		0.0543

Account Head	Debit	Credit
P & L A/c	0.0543	
Repo Interest Expenditure A/c		0.0543

**(b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-10**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Repo Interest Payable A/c	0.0543	
Repo Interest Expenditure		0.0543

**(c) Entries in books of Repo Buyer (Lender of Funds) on 31-Mar-10**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Reverse Repo Interest Receivable A/c	0.0543	
Reverse Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.0543 (being the repo interest for 4 days)

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Reverse Repo Interest Income A/c	0.0543	
P & L A/c		0.0543

**(d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-10**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Reverse Repo Interest Income A/c	0.0543	
Reverse Repo Interest Receivable A/c		0.0543



**(Paragraph 13.2)****Guidelines on Sale of Financial Assets to SC / RC****1. Scope**

These guidelines would be applicable to sale of financial assets enumerated in paragraph 3 below, by Multi-State Co-operative Banks, for asset reconstruction / Securitisation under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act , 2002( SARFAESI Act).

**2. Structure**

The guidelines to be followed by Multi-State Co-operative Banks while selling their financial assets to SC / RC under the Act ibid and investing in bonds / debentures / security receipts offered by the SC / RC are given below. The prudential guidelines have been grouped under the following headings :

- i) Financial assets which can be sold.
- ii) Procedure for sale of financial assets of Multi-State Co-operative Banks to SC / RC, including valuation and pricing aspects.
- iii) Prudential norms, in the following areas, for Multi-State Co-operative Banks for sale of their financial assets to SC / RC and for investing in bonds / debentures / security receipts and any other securities offered by the SC / RC as compensation consequent upon sale of financial assets :
  - a) Provisioning / Valuation norms
  - b) Capital adequacy norms
  - c) Exposure norms
- iv) Disclosure requirements

**3. Financial assets which can be sold**

A financial asset may be sold to the SC / RC by Multi-State Co-operative Banks where the asset is :

- i) A Non Performing Asset, including a non-performing bond / debenture, and
- ii) A Standard Asset where :
  - (a) the asset is under consortium / multiple banking arrangements with Commercial Banks and Multi State Cooperative Banks as member banks,
  - (b) at least 75% by value of the asset is classified as non-performing asset in the books of other banks, and
  - (c) at least 75% (by value) of the banks who are under the consortium / multiple banking arrangements agree to the sale of the asset to SC / RC.

**4. Procedure for sale of financial assets of Multi-State Co-operative Banks to SC / RC, including valuation and pricing aspects**

- (a) The SARFAESI Act, 2002 allows acquisition of financial assets by SC / RC

from Multi-State Co-operative Bank on such terms and conditions as may be agreed upon between them. This provides for sale of the financial assets on 'without recourse' basis, i.e., with the entire credit risk associated with the financial assets being transferred to SC / RC, as well as on 'with recourse' basis, i.e., subject to unrealized part of the asset reverting to the seller bank. Multi-State Co-operative Banks are, however, directed to ensure that the effect of the sale of the financial assets should be such that the asset is taken off from the books of the bank and after the sale there should not be any known liability devolving on the bank.

- (b) Banks which propose to sell their financial assets to SC / RC should ensure that the sale is conducted in a prudent manner in accordance with the policy approved by the Board. The Board shall lay down policies and guidelines covering, inter alia,
  - i) Financial assets to be sold;
  - ii) Norms and procedure for sale of such financial assets;
  - iii) Valuation procedure to be followed to ensure that the realisable value of financial assets is reasonably estimated;
  - iv) Delegation of powers of various functionaries for taking decision on the sale of the financial assets; etc.
- (c) Banks should ensure that subsequent to sale of the financial assets to SC / RC, they do not assume any operational, legal or any other type of risks relating to the financial assets sold.
- (d)
  - (i) Each bank will make its own assessment of the value offered by the SC / RC for the financial asset and decide whether to accept or reject the offer.
  - (ii) In the case of consortium / multiple banking arrangements with other Multi-State Cooperative Banks and Commercial Banks, if 75% (by value) of the banks decide to accept the offer, the remaining banks will be obligated to accept the offer.
  - (iii) Under no circumstances, can a transfer to the SC / RC be made at a contingent price whereby in the event of shortfall in the realization by the SC / RC, the banks would have to bear a part of the shortfall.
- (e) Banks may receive cash or bonds or debentures as sale consideration for the financial assets sold to SC / RC.
- (f) Bonds / debentures received by banks as sale consideration towards sale of financial assets to SC / RC will be classified as investments in the books of banks.
- (g) Banks may also invest in security receipts or other bonds / debentures issued by SC / RC in respect of financial assets sold by them to SC / RC. These securities will also be classified as investments in the books of banks.
- (h) In cases of specific financial assets, where it is considered necessary, banks may enter into agreement with SC / RC to share, in an agreed proportion, any surplus realised by SC / RC on the eventual realisation of the concerned asset. In such cases the terms of sale should provide for a report from the SC / RC to the bank on the value realised from the asset. No credit for the

expected profit will be taken by banks until the profit materializes on actual sale.

## **5. Prudential norms for banks for the sale transactions**

### **(A) Provisioning / valuation norms**

- (a) (i) When a bank sells its financial assets to SC / RC, on transfer the same will be removed from its books.
- (ii) If the sale to SC / RC is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year.
- (iii) Prior to May 15, 2015, if the sale is for a value higher than the NBV banks were not permitted to reverse the excess provisions, but the provisions were utilized to meet the shortfall/loss on account of sale of other assets to SC/RC. With effect from May 15, 2015, it has been decided to permit Multi-State Urban Cooperative Banks to reverse to P& L account the excess provision when the sale is for a value higher than the NBV on sale of NPAs to their profit and loss account. However, banks can reverse excess provision arising out of sale of NPAs only when the cash received (by way of initial consideration and/or redemption of security receipt /pass through certificates) is higher than the NBV of the NPAs sold to SCs/RCs. Further, the quantum of excess provision reversed to profit and loss account will be limited to the extent of which cash exceeds the NBV of the NPAs sold. The quantum of excess provision reversed to the Profit and Loss account on account of sale of NPAs shall be disclosed in the financial statements of the bank under "Notes to Account".
- (iv) When banks invest in the security receipts issued by SC / RC in respect of the financial assets sold by them to the SC / RC, the sale shall be recognised in books of the banks at the lower of :
  - \* the redemption value of the security receipts, and
  - \* the NBV of the financial asset.

The above investment should be carried in the books of the bank / FI at the price as determined above until its sale or realization, and on such sale or realization, the loss or gain must be dealt with in the same manner as at (ii) and (iii) above

- (b) The securities (bonds and debentures) offered by SC / RC should satisfy the following conditions :
  - (i) The securities must not have a term in excess of six years.
  - (ii) The securities must carry a rate of interest which is not lower than 1.5% above the 'Bank Rate' in force at the time of issue.
  - (iii) The securities must be secured by an appropriate charge on the assets transferred.

- (iv) The securities must provide for part or full prepayment in the event the SC / RC sells the asset securing the security before the maturity date of the security.
  - (v) The commitment of the SC / RC to redeem the securities must be unconditional and not linked to the realization of the assets.
  - (vi) Whenever the security is transferred to any other party, notice of transfer should be issued to the SC / RC.
- (c) Investment in debentures / bonds / security receipts issued by SC / RC
- All instruments received by banks from SC / RC as sale consideration for financial assets sold to them and also other instruments issued by SC / RC in which banks invest will be in the nature of non SLR securities. Accordingly, the valuation, classification and other norms applicable to investment in non-SLR instruments prescribed by RBI from time to time would be applicable to bank's investment in debentures / bonds / security receipts issued by SC / RC. However, if any of the above instruments issued by SC / RC is limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme, the bank shall reckon the Net Asset Value (NAV), obtained from SC / RC from time to time, for valuation of such investments

## **(B) Capital Adequacy**

For the purpose of capital adequacy, banks should assign risk weights as under to the investments in debentures / bonds / SRs issued by SC / RC and held by banks as investment :

- i) Risk weight for credit risk : 100%.
- ii) Risk weight for market risk : 2.5%

Applicable risk weight = (i) + (ii)

## **(C) Exposure Norms**

Banks' investments in debentures/ bonds / SRs issued by an SC / RC will constitute exposure on the SC / RC. As there are a few SC / RC, banks' exposure on SC / RC through their investments in debentures / bonds / SRs issued by the SC / RC may go beyond their prudential exposure ceiling. In view of the extra ordinary nature of event, banks will be allowed, in the initial years, to exceed prudential exposure ceiling on a case-to-case basis.

## **6. Disclosure Requirements**

Banks, which sell their financial assets to an SC / RC, shall be required to make the following disclosures in the Notes on Accounts to their Balance sheets :

Details of financial assets sold during the year to SC / RC for Asset Reconstruction

- a) No. of accounts
- b) Aggregate value (net of provisions) of accounts sold to SC / RC

- c) Aggregate consideration
- d) Additional consideration realized in respect of accounts transferred in earlier years
- e) Aggregate gain / loss over net book value.

**7. Related Issues**

- (a) SC / RC will also take over financial assets which cannot be revived and which, therefore, will have to be disposed of on a realisation basis. Normally the SC / RC will not take over these assets but act as an agent for recovery for which it will charge a fee.
- (b) Where the assets fall in the above category, the assets will not be removed from the books of the bank but realisations as and when received will be credited to the asset account. Provisioning for the asset will continue to be made by the bank in the normal course.

**Notification**

UBD.BPD.(PCB).Not.No.2/16.26.000/2013-14

June 5, 2014

In exercise of the powers conferred by sub-section (2A) of Section 24 of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 thereof, the Reserve Bank hereby specifies that every primary (urban) co-operative bank shall continue to maintain in India assets as detailed below, the value of which shall not, at the close of business on any day, be less than 22.50 per cent of the total of demand and time liabilities in India as on the last Friday of the second preceding fortnight, from the fortnight beginning from July 12, 2014, valued in accordance with the method of valuation specified by the Reserve Bank from time to time.

- (a) Cash, or
- (b) Gold valued at a price not exceeding the current market price, or
- (c) Unencumbered investment in approved securities as defined in Section 5(a) of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 thereof.

2. Notwithstanding anything contained hereinabove, -

- (i) Unencumbered balances maintained by a primary co-operative bank with the central co-operative bank of the district concerned or with the State co-operative bank of the State concerned, in excess of the balance required to be maintained by it under Section 18 of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 thereof; or
- (ii) unencumbered term deposits held by a primary co-operative bank with State Bank of India or a subsidiary bank or a corresponding new bank or IDBI Bank Ltd.

shall also be deemed to be assets for the purpose of calculating the percentage specified under this notification, till March 31, 2015.

**Explanation :**

A. "Unencumbered investment" of a primary co-operative bank shall include its investment in the approved securities lodged with another institution for an advance or any other credit arrangement to the extent to which such securities have not been drawn against or availed of.

B. "Term deposit" shall mean a deposit which is withdrawable after the expiry of a fixed period and includes deposits such as recurring deposit, cumulative deposit, annuity deposit, reinvestment deposit and cash certificate.

C. In computing the amount for the above purpose, the following shall be deemed to be cash maintained in India :

(i) Any balances maintained by a primary co-operative bank, which is a scheduled bank, with the Reserve Bank in excess of the balance required to be maintained by it under Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934); and

(ii) Any balances maintained by a primary co-operative bank, not being a scheduled bank, with the Reserve Bank in excess of the balance required to be maintained by it under Section 18 of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 thereof; and

(iii) "Net balances in current accounts" as defined in the Explanation to sub-section (1) of Section 18 of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 thereof, in excess of the balance required to be maintained by it under the said section.

Sd/-

(N. S. Vishwanathan)  
Executive Director

## Appendix A

### A. List of Circulars consolidated in the Master Circular

Sr. No.	Circular No.	Date	Subject
1	<a href="#">DCBR.BPD.(MSCB).Cir.No.1/13.05.000/2014-15</a>	14.05.2015	Guidelines on Sale of Financial Assets to Securitization Company (SC) / Reconstruction Company (RC) - Reversal of Excess provision on Sale of NPAs to SC / RC
2	<a href="#">UBD.BPD.(PCB).Cir.No.68/16.26.000/2013-14</a>	05.06.2014	The Banking Laws (Amendment) Act 2012 - Amendments to Section 18 & 24 of Banking Regulation (B.R.) Act, 1949 (AACS) - Maintenance of Cash Reserve Ratio (CRR) for Non-Scheduled UCBs and Statutory Liquidity Ratio (SLR) for UCBs
3	<a href="#">UBD.BPD.(PCB).Cir.No.58/16.20.000/2013-14</a>	07.05.2014	Investments in Market Infrastructure Companies by Primary (Urban) Cooperative Banks
4	<a href="#">UBD.BPD.(PCB).Cir.No.53/13.05.000/2013-14</a>	28.03.2014	Guidelines on Sale of Financial Assets to Securitisation Company / Reconstruction Company (SC / RC) by Multi State Urban Cooperative Banks
5	<a href="#">UBD.BPD.(PCB).Cir.No.9/09.29.000/2013-14</a>	04.09.2013	Secondary Market Transactions in Government Securities - Intra-day Short Selling
6	<a href="#">UBD.BPD(SCB).No.4/16.20.000/2012-13</a>	10.6.2013	Ready Forward Contracts in Corporate Debt Securities
7	<a href="#">IDMD.PCD.1423/14.03.02/2012-13</a>	30.10.2012	Ready Forward Contracts in Corporate Debt Securities –Permitting Scheduled UCBs.
8	<a href="#">UBD.BPD(PCB).No.17/12.05.001/2011-12</a>	03.01.2012	Negotiated Dealing System (NDS) – Order Matching (OM)- Grant of membership to UCBs
9	<a href="#">IDMD.DODNo.13/10.25.66/2011-12</a>	18.11.2011	Direct access to Negotiated Dealing System – Order Matching (NDS-OM)
10	<a href="#">UBD.CO.(PCB).BPD.Cir.6/09.11.00/2011-12</a>	25.10.2011	SGL and CSDL Accounts – Eligibility Criteria and Operational Guidelines
11	<a href="#">IDMD.No.29/11.08.043/2010-11</a>	30-05-2011	Guidelines for Accounting of Repo / Reverse Repo Transactions- Clarification
12	<a href="#">UCB(PCB)BPD.Cir.No.36/16.20.000/2010-11</a>	18-02-2011	Prudential Norms on Investment in Zero Coupon Bonds
13	<a href="#">UBD.(PCB).Cir.No.34/09.80.00/2010-11</a>	18-01-2011	Accounting Procedure for Investments - Settlement Date Accounting
14	<a href="#">UBD.BPD.(PCB).Cir.No.24/12.05.001/2010-11</a>	16.11.2010	Opening of Current account and Subsidiary General Ledger Account with Reserve Bank and Membership of Indian Financial network (INFINET) and Real Time Gross Settlement (RTGS) system.
15	<a href="#">IDMD.PCD.22/11.08.38/2010-11</a>	09.11.2010	Ready Forward Contracts in Corporate Debt Securities
16	<a href="#">UBD.CO.BSD./PCB.Cir./68/12.22.351/2009-10</a>	07-06-2010	Placement of deposits with other banks by Primary (Urban) Co-operative Banks for availing clearing facility
17	<a href="#">UBD.BPD.PCB.Cir.No.63/16.20.000/2009-10</a>	04-05-2010	Investment in unlisted Non-SLR securities by Primary (Urban) Co-operative Banks
18	<a href="#">UBD.BPD.PCB.Cir.No.62/16.20.000/2009-10</a>	30-04-2010	Classification of investments in bonds issued by companies engaged in



			infrastructure activities
19	<a href="#">UBD. (PCB).BPD.Cir.52/09.11.000/2009-10</a>	05-04-2010	Maintenance of CSGL accounts
20	<a href="#">IDMD/4135/11.08.43/2009-10</a>	23-03-2010	Guidelines for accounting Repo/Reverse Repo transactions
21	<a href="#">IDMD.DOD.05/11.08.38/2009-10</a>	08.01.2010	Ready Forward Contracts in Corporate Debt Securities
22	<a href="#">UBD(PCB).BPD.Cir.No.34/16.26.000/2009-10</a>	17-12-2009	Banking Regulation Act, 1949 (AACS), Section 24-Investment in Government and other approved securities by UCBs
23	<a href="#">UBD.BPD.(PCB).Cir.No.27/16.20.000/2009-10</a>	03-12-2009	Master Circular on Investments by UCBs – Corrigendum
24	<a href="#">IDMD.DOD.No.334/11.08.36/2009-10</a>	20-07-2009	Ready forward contracts
25	<a href="#">UBD BPD (PCB) No 47/16.20.000/08-09</a>	30-01-09	Placement of deposits with other banks by primary (urban) cooperative banks (UCBs)
26	<a href="#">UBD BPD (PCB) No 46/16.20.000/08-09</a>	30-01-09	Investments in Non-SLR securities by primary (urban) cooperative banks
27	<a href="#">UBD BPD (PCB) No 37/16.26.000/08-09</a>	21-01-09	Banking Regulation Act 1949 (AACS)-Investments in Government and other approved securities by UCBs – Exemption under Section 24A
28	<a href="#">UBD BPD (PCB) No 28/16.26.00/08-09</a>	26-11-08	Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) Section 24-Investment in Government and other approved securities by Urban Co-operative Banks (UCBs)
29	<a href="#">UBD BPD No:56 /16.20.000/07-08</a>	17-06-08	Valuation of Non-SLR securities issued by the Government of India
30	<a href="#">IDMD/ No. 3166/11.01.01(B)</a>	01-01-08	WI transactions on Government Securities
31	<a href="#">UBD BPD No:14/16.20.00/07-08</a>	18-09-07	Investments in Non-SLR securities
32	<a href="#">UBD BPD No: 7/ 09.29.000/2006-07</a>	18-08-2006	'When issued' transactions in Govt. Securities
33	<a href="#">UBD BPD No: 1/ 09.09.001/2006-07</a>	11-07-2006	Priority Sector Lending – Investments in NHB / HUDCO
34	<a href="#">UBD BPD No: 41/16.20.000/2005-06</a>	29-03-2006	Investment portfolio of UCBs - valuation
35	<a href="#">UBD BPD No: 31/13.01.000/2005-06</a>	17-02-2006	Investment in Government Securities
36	<a href="#">UBD BPD No: 41/16.20.000/2004-05</a>	28-03-2005	Investment portfolio of UCBs - valuation
37	<a href="#">UBD BPD No: 16/16.20.000/2004-05</a>	02-09-2004	Investments – classification and valuation
38	<a href="#">UBD BPD No: 49/09.80.00/2004-05</a>	20-06-2005	Ready Forward Transactions
39	<a href="#">UBD BPD No: 50/09.80.00/2004-05</a>	20-06-2005	Govt Sec- T + 1 settlement
40	<a href="#">UBD BPD No: 51/09.80.00/2004-05</a>	20-06-2005	Settlement of securities on primary issues
41	<a href="#">UBD.BPD.No.37/12.05.01/2004-05</a>	26.02.2005	Investment portfolio of banks – Reporting system
42	<a href="#">UBD.BPD.SUB.CIR.5/09.80.00/2003-04</a>	28-04-2004	Transactions in Government Securities (DVP III)
43	<a href="#">UBD.BPD.PCB.Cir.45/16.20.00/2003-04</a>	15-04-2004	Investment in non-SLR debt securities by UCBs
44	<a href="#">UBD.BPD.PCB.Cir.44/09.29.00/2003-04</a>	12-04-2004	Sale of Govt. Securities allo UBD BPD No: 41/ 16.20.000/2004-05cated during the auctions for primary issues on the same day.
45	<a href="#">UBD.BPD.PCB.Cir.42/09.11.00/2003-04</a>	1-04-2004	Maintenance of CSGL Accounts
46	<a href="#">UBD.BPD.PCB.Cir.35/13.05.00/2003-04</a>	27-02-2004	Placement of deposits by NSCBs with strong sch UCBs
47	<a href="#">UBD.BPD.PCB.Cir.34/13.05.00/2003-04</a>	11-02-2004	Maximum limit on advances – limits on exposure to individual/group borrowers – Computation of capital funds
48	<a href="#">UBD.BPD.PCB.Cir.33/09.11.00/2003-04</a>	11-02-2004	Maintenance of CSGL Accounts
49	<a href="#">UBD.BPD.PCB.FIR.26/16.20.00/2003-04</a>	2-12-2004	Investment in shares of ICICI Bank Ltd.
50	<a href="#">UBD.BPD.PCB.Cir.12/09.29.00/2003-04</a>	04-09-2003	Investment Portfolio of UCBs –

			Guidelines for Investment Fluctuation Reserve
51	UBD.BPD.Cir.No.11/09.29.00/2003-04	02-09-2003	Investment Portfolio of UCBs – Classification & Valuation of investments
52	UBD.BPD.PCB.Cir.8/9.2900/2003-04	16-08-2003	Trading of Government Securities in Stock Exchanges
53	<a href="#">UBD.BPD.Cir.No.1/09.11.00/2003-04</a>	08-07-2003	Settlement in respect of Government Securities Transaction – Compulsory settlement through CCIL
54	<a href="#">UBD.BPD.PCB.Cir.No.2/09.80.00/2003-04</a>	08-07-2003	Scheme for Non-Competitive Bidding Facility in the Auction of Government of India dated securities
55	<a href="#">UBD.PCB.56/09.29.00/2003-04</a>	02-07-2003	Investment Portfolio of Banks – Transactions in Securities
56	<a href="#">UBD.BPD.PCB.Cir.No.46/16.20.00/2002-03</a>	17-05-2003	Placement of deposits by non-scheduled UCBs with Scheduled UCBs
57	UBD.BPD.PCB.No.44/09.80.00/2002-03	12-05-2003	Guidelines for uniform accounting for Repo/Reverse Repo transactions
58	<a href="#">UBD.BPD.PCB.Cir.No.39/09.29.00/2002-03</a>	13.03.2003	Trading of Government Securities on Stock Exchange
59	<a href="#">UBD.BP.No.35/16.26.00/2002-03</a>	18-02-2003	Prices of Government Securities in the Secondary Market
60	UBD.BPD.SPCB.No.9/09.29.00/2002-03	27-01-2003	Reconciliation Procedure for Government Loans
61	UBD.POT.PCB.Cir.No.06/09.29.00/2002-03	06-08-2002	Investment Portfolio of UCBs – Transactions in Government Securities
62	UBD.POT.PCB.Cir.No.5/09.29.00/02-03	22-07-2002	Investment portfolio of banks – transaction in securities
63	<a href="#">UBD.POT.No.49/09.80.00/2001-02</a>	17-06-2002	Ready Forward Contracts
64	<a href="#">UBD.CO.POT.PCB.Cir.No.48/09.29.00/2001-02</a>	11-06-2002	Certification of holding of securities in banks' investment portfolio
65	<a href="#">UBD.BR.No.47/16.26.00/2001-02</a>	07-06-2002	Investments in Government and other approved securities by UCBs
66	<a href="#">UBD.PCB.Cir.No.46/09.29.00/2001-02</a>	06-06-2002	Investment Portfolio of Banks – Transaction in Securities
67	UBD.Plan.SCB.Cir.No.10/09.29.00/2001-02	26-04-2002	Investment Portfolio of Urban Banks – Transactions in Government Securities
68	<a href="#">UBD.Plan.PCB.Cir.No.41/09.29.00/2001-02</a>	20-04-2002	Investment Portfolio of Banks – Transactions in Securities
69	UBD.BR.Cir.No.19/16.26.00/2001-02	22-10-2001	B.R.Act, 1949 (AACS) Section 24 – Investment in Government and other approved securities
70	UBD.No.BR.6/16.26.00/2000-01	09-08-2001	B.R. Act, 1949 (AACS) Section 24 – Investment in Government and other approved securities
71	UBD.No.CO.BSD.I.PCB.44/12.05.05/2000-2001	23-04-2001	Guidelines for Classification and Valuation of Investments by Banks
72	UBD.No.BR.Cir/42/16.26.00/2000-01	19-04-2001	Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) - Section 24 - Investment in Government and other approved Securities by Urban Co-operative Banks (UCBS)
73	UBD.No.43/16.20.00/2000-01	19-04-2001	Investment of Funds by Urban Co-operative Banks as deposits with other institutions and other Urban Co-operative Banks
74	UBD.No.POT.Cir.PCB.39/09.29.00/ 2000	18-04-2001	Sale of Government Securities Allotted in the Auctions of Primary Issues
75	UBD.No.Plan.PCB.Cir/22/09.29.00/2000-2001	30-12-2000	Investment Portfolio of banks - Transactions in securities - Role of brokers
76	UBD.Plan.PCB.Cir/26/09.80.00/99-2000	28-03-2000	Ready Forward Contracts

77	UBD.Plan.18/09.80.00/1999-2000	30-12-1999	Banks' own investment in State Government Loans -Payment of brokerage commission
78	UBD.No.Plan.PCB.04/09.80.00/99-2000	25-08-1999	Ready Forward Transactions
79	Ref. UBD No.BR. 26/18.20.00/98-99	07-04-1999	Investment of funds by primary (urban) co-operative banks In public sector undertakings/ companies
80	UBD.No.Plan.PCB.DIR.3/09.80.00/98-99	17-08-1998	Reverse Ready forward transactions
81	UBD.No.BR.1/16.20.00/98-99	10-07-1998	Investment by urban co-op. banks – Valuation of Investments – US – 64 units
82	UBD No.61/16.20.00/97-98	04-06-1998	Investment of Investment by Urban Cooperative Banks - Valuation of Investment - US- 64 Units funds by primary (urban) co-operative banks in public sector undertakings/companies
83	UBD.No.Pl.an.PCB/Cir.56/09.60.00/ 97-98	13-05-1998	Investment in Certificates of Deposit (CDs) by primary (urban) co-operative banks
84	UBD.No.Plan.SUB.20/09.81.00/97-98	19-02-1998	Retailing of Government Securities
85	UBD.No.BP.37/16.20.00/97-98	29-01-1998	Investment by Urban Co-operative Banks - Valuation of Investments
86	UBD.No.BSD.I (PCB) 22/ 12. 05. 00 / 97-98	26-11-1997	Investment by Urban Co-operative Banks Valuation of Investments
87	UBD.No.Plan.SUB.No.17/09.83.00/97-98	19-11-1997	Statistical data relating to investments in Money Market Instruments/ Government Securities
88	UBD.No.Plan.PCB/Cir.21/09.60.00/97-98	11-11-1997	Investment in certificates of deposit (CDs) by Urban Co-operative Banks
89	UBD.No.Plan.PCB.Cir.19/09.29.00/97-98	10-11-1997	Investment Portfolio of banks-Transactions in securities-Role of brokers
90	UBD.No.Plan.PCB.56/09.60.00/96-97	06-06-1997	Investment in Certificates of Deposit (CDs) by Urban Co-operative Banks
91	UBD.No.DS.SUB.CIR.7/13.07.00/96-97	07-01-1997	Investment of Surplus Funds by primary co-operative Banks in Bills Rediscounting Scheme
92	UBD.No.Plan.PCB.34/09.29.07/96-97	30-12-1996	Investment portfolio of banks Transactions in securities
93	UBD.No.Plan.PCB.No.30/09.82.00/96-97	27-11-1996	Investment by Urban Co-operative Banks in the Units of Unit Trust of India (UTI)
94	UBD.No.Plan.PCB.19/09.29.00/96-97	11-09-1996	Investment portfolio of banks - System for custody and control of unused B. R. Forms
95	UBD.No.Plan.PCB.7/09.60.00/96-97	19-07-1996	Investment in certificates of deposit by Urban Co-operative Banks
96	UBD.No.Plan/PCB/69/09.29.00/95-96	21-06-1996	Investment portfolio of banks - Transactions in securities
97	UBD.No.BR.Cir.52/16.20.00/95-96	16-03-1996	Investment of funds by Urban Co-operative Banks in Public Sector Undertakings/Companies
98	UBD.No.Plan.PCB.47/09.60.00/95-96	29-02-1996	Investment in Certificates of Deposit (CDs) by Urban Co-operative Banks
99	UBD.No.BR.12/16.20.00/95-96	06-01-1996	Investment of funds by urban co-operative banks in bonds of public sector undertakings
100	UBD.No.BR.Cir.33/16.26.00/95-96	03-01-1996	Banking Regulation Act, 1949 (As applicable to Co-operative Societies) Section 24-Investment in Government and other approved securities by primary co-operative banks
101	UBD.No.Cir.63/16.26.00/94-95	16-06-1995	Banking Regulation Act, 1949 (As applicable to Co-operative Societies)

			Section 24-Investment in Government and other approved securities by primary co-operative banks
102	UBD.No.BR.CIR.53/16.20.00/94-95	24-04-1995	Investment of funds by Urban Co-operative Banks in Public Sector Undertakings/Companies
103	UBDNo.Plan.PCB.32/09.29.00/94-95	24-11-1994	Investment Portfolio of Banks - Transactions in Securities - Bank Receipts/Role of brokers
104	UBD.No.Plan.PCB.29/09.80.00/94/95	09-11-1994	Ready Forward Transactions
105	UBD.No.Plan.PCB.14/09.80.00/94-95	24-08-1994	Ready Forward Transactions
106	UBD.BR.10/PCB(CIR)/16.20.00/9495	01-08-1994	Investment of funds by primary co-operative banks in public sector undertakings/companies
107	UBD.BR.CIR.72/16.20.00/93-94	16-05-1994	Investment of funds by urban co-operative banks in public sector undertakings/companies
108	UBD.No.PLAN (PCB).CIR.56/09.29.00/ 93-94	11-02-1994	Investment portfolio of banks - Transactions in Securities.
109	UBD.No.Plan.51/09.29.00/93-94	20-01-1994	Investment portfolio of banks - Transactions in Securities - Bouncing of SGL transfer forms - Penalties to be imposed:
110	UBD.No.3/09.29.00/93-94	02-08-1993	Investment port-folio of banks - Transactions in securities - Aggregate contract limit for individuals brokers – Clarifications
111	UBD.No.Plan.74/UB.81-92/93	17-05-1993	Investment portfolio or banks - Transactions in securities
112	UBD.No.Plan.13/UB.81/92-93	15-09-1992	Investments portfolio of banks Transactions in securities
113	UBD.No.BR.1866/A.12(19)-87/88	13-06-1988	Investments of Funds by Urban Co-operative Banks as Deposits with Public Sector Undertakings/ Companies/Corporations/Co-operative Institutions
114	UBD.No.DC.84/R.1(B).87/88	13-02-1988	Bills Rediscounting Scheme – Rediscounting of bills with Banks and Financial Institutions
115	UBD.No.BR.1455/A12(24)-85/86	31-05-1986	Banking Regulation Act, 1949 (as applicable to co-operative societies) - Section 24 - Investment in Units issued by the Unit Trust of India
116	UBD.BR.871/A.12 (24)-84/85	10-05-1985	Banking Regulation Act, 1949 (as applicable to co-operative societies) - Section 24 - Investment made under national deposit scheme
117	UBD.BR.498/A.12 (24) -84/85	08-01-1985	Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) Section 24 - Investment in Government and Other Trustee Securities by primary co-operative banks
118	UBD.NO.DC.597/R.41-84/85	31-10-1984	7% Capital Investment Bonds
119	UBD.P&O.1121/UB. -63-83/84	01-06-1984	Bank's own investment in central state government loans-payment of brokerage
120	ACD.ID (DC) 1799/R.36/79/80	10-01-1980	Subscription/purchase of 7 year national rural development bonds

121	ACD.ID. (DC) 1800/R.36-79/80	10-01-1980	Directive relating to subscription/purchase of 7 year national rural development bonds
122	ACD.BR.446/A.12 (19)/72-3	01-11-1972	Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) Section 19
123	ACD.BR.463/A.12 (19)/70-7	09-11-1970	Banking Regulation Act, 1949 (As Applicable to Co-operative Societies): Section 19
124	ACD.BR.1/A.12 (19)/68-9	01-07-1968	Section 19 of the Banking Regulation act 1949 (as applicable to co-operative societies): Restriction on holding shares in other co-operative societies
125	ACD.BR.3/A.12 (19)/68-9	01-07-1968	Section 19 of the Banking Regulation Act, 1949 (as applicable to co-operative societies): Restriction on holding shares in other co-operative societies
126	ACD.BR.903/A.12 (19)/67-8	22-12-1967	Banking Regulation Act, 1949 (as applicable to Co-operative Societies): Section 19: Restriction on holding of shares in other co-operative societies
127	ACD.BR.388/A.11 (19) 65-6	01-03-1966	Section 19 of the Banking Regulation Act: Restriction on holding shares in other co-operative societies

**B. List of Other Circulars from which instructions relating to Investments have also been consolidated in the Master Circular**

Sr. No.	Circular No.	Date	Subject
1	UBD.No.POT.PCB.Cir.No.45/09.116.00/2000-01	25-04-2001	Application of Capital Adequacy Norms to Urban (Primary) Co-operative Banks
2	UBD.CO.No.BSD-I.PCB(Cir)34/12.05.05/99-2000	24-05-2000	Income Recognition, Asset Classification, Provisioning and Valuation of Investments
3	UBD.No.BSD.PCB./25/12.05.05/99-2000	28-02-2000	Income Recognition, Asset Classification, Provisioning and other related matters
4	UBD.No.I&L(PCBs)42/12.05.00/96-97	20-03-1997	Prudential norms - Income Recognition, Assets Classification, Provisioning and other related matters -
5	UBD.No.I&L(PCBs)68/12.05.00/95-96	10-06-1996	Income Recognition, assets classification, provisioning and other related matters Clarifications
6	UBD.No.I&L(PCB)61/12.05.00/94-95	06-06-1995	Income recognition, asset classification, provisioning and other related matters Valuation of investment and others
7	UBD.No.I&L86/12.05.00/93-94	28-06-1994	Income recognition, assets classification, provisioning and other related matters
8	UBD.21/12:15:00/93-94	21-09-1993	Committee to enquire into various aspects relating to frauds and malpractices in banks primary (urban) co-operative banks
9	UBD.NO.I&L.38/J.1-92/93	09-02-1993	Income recognition, assets classification, provisioning and other related matters
10	UBD.BR.16/A.6-84/85	09-07-1984	Banking Law (Amendment) Act, 1983
11	ACD.Plan.358/UB.1-78/9	20-04-1979	Report on the committee on urban co-operative banks
12	ACD.BR.184/A.12(19)-78/9	23-08-1978	The Banking Regulation Act, 1949 (as applicable to co-operative societies) : Section 10 : Restriction on holding shares in other co-operative societies
13	ACD.BR.760/A.1/68-9	23-01-1969	The Banking Laws (Amendment) Act, 1968
14	ACD.BR. 464/A. 12(24)/68-9	12-11-1968	Section 24 of the Banking Regulation Act 1949 (As Applicable to Co-operative Societies): Maintenance of Percentage of Assets