

RBI/2006-2007/ 334

DBOD.BP.BC. 87 /21.04.141/ 2006-07

April 20, 2007

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir,

**Prudential Norms for Classification, Valuation
and Operation of Investment Portfolio by Banks**

Please refer to our Master Circular on the above subject DBOD. No. BP.BC. 14/ 21.04.141/ 2006-07, dated July 1, 2006. In terms of these guidelines a bank may classify a security in the Held to Maturity (HTM) category either at the time of acquisition or at the time of shifting from the AFS (Available For Sale) category. In terms of paragraph 3.1 (i) of the above Master Circular, securities included in the HTM category need not be marked to market and will be carried in the books at acquisition cost. The securities shifted from the AFS category will be held in the HTM category at the least of acquisition cost or book value or market value of the security at the time of shifting. In case the acquisition cost of the securities included under HTM category (including the value at which the security was shifted from the AFS category) is more than the face value, the premium should be amortised over the period remaining to maturity.

2. It is observed that banks are adopting different accounting methods for amortising the premium in respect of their HTM securities. Banks may refer to the format of the balance sheet and profit and loss account prescribed in the Third Schedule to the Banking Regulation Act, 1949 which indicate the accounting of loss on revaluation of investments. Accordingly banks should:

- a) Reflect the amortised amount during an accounting period in the Profit and Loss account of the bank in "Schedule 14 – Other Income: Item III – Profit on revaluation of investment" as a deduction.

b) The book value of the security should be reduced to the extent of the amount amortised during the relevant accounting period.

3. With a view to bringing about uniformity in the accounting of this aspect, it is re-iterated that banks should adopt the correct accounting methodology while finalizing their financial statements, including the statements for the year ended **March 31, 2007.**

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge