



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI/2010-11/395

DBOD. No. BP.BC.79 /21.04.141/2010-11

January 31, 2011

The Chairmen and Managing Directors/
Chief Executive Officers of
All Commercial Banks
(excluding Regional Rural Banks)

Dear Sir,

Recognition of permanent diminution in the value of investments in banks' subsidiaries/joint ventures

In terms of para 15 of Annexure to circular [DBOD.No.BP.BC.32/21.04.048/2000-2001 dated October 16, 2000](#) on 'Guidelines for Classification and Valuation of investments by Banks', banks are required to recognise any diminution, other than temporary, in the value of their investments in subsidiaries/ joint ventures which are included under Held to Maturity category and provide therefor. However, in the absence of any specific instructions on the method of assessment/measurement of permanent diminution, it has been observed that banks are not making any attempt to determine whether there is any permanent diminution in their strategic equity investments held under HTM or AFS categories.

2. The need to determine whether impairment has occurred is a continuous process and the need for such determination will arise in the following circumstances:

(a) On the happening of an event which suggests that impairment has occurred.

This would include:

- (i) the company has defaulted in repayment of its debt obligations.
- (ii) the loan amount of the company with any bank has been restructured.
- (iii) the credit rating of the company has been downgraded to below investment grade.

(b) When the company has incurred losses for a continuous period of three years and the net worth has consequently been reduced by 25% or more.

(c) In the case of new company or a new project when the originally projected date of achieving the breakeven point has been extended i.e., the company or the project has not achieved break-even within the gestation period as originally envisaged.

3. When the need to determine whether impairment has occurred arises in respect of a subsidiary, joint venture or a material investment, the bank should obtain a valuation of the investment by a reputed/qualified valuer and make provision for the impairment, if any.

4. These guidelines would be applicable with immediate effect.

Yours faithfully,

(B. Mahapatra)
Chief General Manager-in-Charge