



RESERVE BANK OF INDIA

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RBI/2008-09/367

UBD (PCB) BPD Cir No: 46 /16.20.000/2008-09

January 30, 2009

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

Dear Sir/Madam,

Investments in Non-SLR securities by primary (urban) cooperative banks

Please refer to the guidelines on the captioned subject issued vide our circular UBD BPD PCB Cir 14/16.20.00/2003-04 dated September 18, 2007.

2. On the basis of representations received from banks and their Federations, the existing guidelines have been reviewed and it has been decided as under:

i) 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.

ii) 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.

iii) Restrictions

- (a) Investment in perpetual debt instruments is not permitted.

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- (b) Investment in unlisted securities should be subject to a minimum rating prescribed at (ii) above and should not exceed 10% 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.
- (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.
- (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 (i) 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 (i) 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.
- (h) All Non-SLR investments will be subject to the prescribed prudential single/group counter party exposure limits.

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- (i) All transactions for acquisition / sale of non-SLR investments in secondary market may be undertaken only with commercial banks / primary dealers as counterparties.

iv) 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.

v) Review

The Boards 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.

vi) 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 the Annex.

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3. The guidelines on placement of deposits by UCBs with other banks are being issued separately.

Yours faithfully,

(A. K. Khound)
Chief General Manager in-Charge
Encl: 1.

Annex

Prudential guidelines on management of the Non-SLR investment portfolio by urban co-operative banks – Disclosure requirements

Urban co-operative banks should make the following disclosures in the 'Notes on Accounts' of the balance sheet in respect of their non-SLR investment portfolio.

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				

ii) Non performing Non-SLR investments

Particulars	Amount (Rs. Crore)
Opening balance	

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Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

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