भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2017-18/147
DBR.No.BP.BC.102/21.04.048/2017-18 April 2, 2018

All Scheduled Commercial Banks
(Excluding Regional Rural Banks),
Small Finance Banks

Dear Sir/Madam,

Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks – Spreading of MTM losses and creation of Investment Fluctuation Reserve (IFR)

Please refer to Master Circular DBR.No.BP.BC.6/21.04.141/2015-16 dated July 1, 2015 on the captioned subject. Banks are required to mark to market (MTM) the individual scrips in Available for Sale (AFS) at quarterly/more frequent intervals and Held for Trading (HFT) at monthly/more frequent intervals and provide for net depreciation, if any.

2. With a view to addressing the systemic impact of sharp increase in the yields on Government Securities, it has been decided to grant banks the option to spread provisioning for mark to market (MTM) losses on investments held in AFS and HFT for the quarters ended December 31, 2017 and March 31, 2018. The provisioning for each of these quarters may be spread equally over up to four quarters, commencing with the quarter in which the loss is incurred.

2.1. Banks that utilise the above option shall make suitable disclosures in their notes to accounts/ quarterly results providing details of

(a) the provisions for depreciation of the investment portfolio for the quarters ended December 2017 and March 2018 made during the quarter/year and
(b) the balance required to be made in the remaining quarters.

3. Further, with a view to building up of adequate reserves to protect against increase in yields in future, all banks are advised to create an Investment Fluctuation Reserve (IFR) with effect from the year 2018-19, as under:

3.1 An amount not less than the lower of the following:

(a) net profit on sale of investments during the year

(b) net profit for the year less mandatory appropriations

shall be transferred to the IFR, until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis. Where feasible, this should be achieved within a period of 3 years

3.2 A bank may, at its discretion, draw down the balance available in IFR in excess of 2 percent of its HFT and AFS portfolio, for credit to the balance of profit/loss as disclosed in the profit and loss account at the end of any accounting year. In the event the balance in the IFR is less than 2 percent of the HFT and AFS investment portfolio, a draw down will be permitted subject to the following conditions:

(a) The drawn down amount is used only for meeting the minimum CET1/Tier 1 capital requirements by way of appropriation to free reserves or reducing the balance of loss, and

(b) The amount drawn down is not more than the extent the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during that year.

3.3 IFR shall be eligible for inclusion in Tier 2 capital.

Yours faithfully,

(Saurav Sinha)
Chief General Manager-In-Charge