JYOTINDRA MEHTA
PRESIDENT

NAFCUB

आज़ादी का अमृत महोत्सव

Ref. No. NF/U-6/2021-22/23 Dated: March 14, 2022

The Chief General Manager In-charge
Department of Regulation
Reserve Bank of India
New Central office Building
Shahid Bhagat Singh Marg
Mumbai-400001

Dear Sir

Prudential Norms on Investments—Relaxation in Valuation and Provisioning

As per extant guidelines prescribed in Master Circular on Investments dated 20th September 2021, 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. Investments in non-SLR securities, since September 18, 2007, 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. Further in terms of Para 15 of the guidelines, 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.

2. As you are well aware that during the last two financial years, UCBs in general have been severally affected by Covid 19 pandemic leading to high level of NPAs and the consequential provisioning requirements. In fact, as per data released by RBI, UCBs had the highest level of gross and net NPAs and low level of PCR. Further RBI issued clarificatory Circular dated November 12, 2021 enforcing stringent norms for classification of system driven identification and classification of NPAs on daily basis which is likely to have adverse ramifications on the level of NPAs and the provisioning requirements during the current financial year thereby impacting profitability of a large number of UCBs in the country.

3. In addition to the severe impact of Covid 19 during the current year, the sudden rising inflation, rise in prices of Crude oil and the Ukrainian war with Russia has its adverse impact on the economy in general and the banking in particular. Recently banks are witnessing rise in yield on Govt Securities leading to the need of very high level of provisioning for MTM losses. The yield on the 10-year Govt

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Securities is already touching 6.9 as against about 6.0 in the previous year resulting in considerable provisioning requirements for mark to Market in respect of securities held in AFS/HFT. In view of the circumstances mentioned in the preceding paragraph several UCBs have not been able to build- up adequate IFR as prescribed by RBI.

4. As per extant instructions, securities under AFS and HFT categories shall be valued scrip-wise, and depreciation/appreciation shall be aggregated for each classification as indicated 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.

5. In this connection while we appreciate the steps taken by RBI to tackle the situation of NPAs emanating from the pandemic that has gripped the nation but having regard to the extraordinary situation facing the UCBs, certain relaxations are required to be considered by RBI. We are well aware that with a view to addressing the systemic impact of sharp increases in the yield on Govt securities, RBI in the recent past extended the option of spreading provisioning for mark to market losses on investments. As the present increase in the yield of Govt securities has systemic impact on all UCBs which are already saddled with high provisioning requirements on account of high level of NPAs, it is therefore requested to grant forbearance to UCBs in the matter of provisioning requirements emanating from Mark to market while permitting UCBs to transfer Govt Securities from AFS and HFT to HTM as a one-time measure and a special case. Alternatively, the provisioning due to MTM losses be spread equally in four quarters commencing from June 2022 onwards to enable UCBs to escape mounting losses and the consequential decline in public confidence.

With kind regards,

Yours Sincerely,

Jyotindra Mehta

(JYOTINDRA MEHTA)
PRESIDENT

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