CAB Training Cards

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RBI Guidelines on Investments by UCBs

1. UCBs are required to put in place a board approved investment policy clearly outlining investment objectives, process-flow, and internal control systems.

2. Investment committee should actively oversee the investment transactions and it should seek a Scheduled Commercial Bank, a Primary Dealer, or a Financial Institution as counterparty for transactions. Prices of the government securities can be observed in real time through NDS-OM using the URL

   https://www.ccilindia.com/OMHome.aspx

3. There should be a clear segregation of dealing, risk management and back office functions. Officials deciding about purchase and sale transactions should be separate from those responsible for settlement, accounting, and risk management.

4. All transactions should be monitored to ensure that delivery takes place on settlement day. The funds account and investment account should be reconciled on the same day before close of business. A scrip-wise investment ledger should be maintained.

5. Securities should be classified in Held to Maturity (HTM), Held for Trading (HFT), and Available for Sale (AFS), at the time of purchase, depending upon the intended purpose of the investment.

6. Investments under HFT should be marked to market on quarterly or more frequent intervals and that under AFS at least annually using the rates/methodology prescribed by Financial Benchmarks India private Limited (http://www.fbil.org.in). Tier II UCBs must build an Investment Fluctuation Reserve (IFR) up to 5% of their AFS and HFT portfolio.

7. A shift in classification can be undertaken once in a year, preferably in the beginning of the year. Any change in classification should be with reference to the prevailing market value and any depreciation should be fully provided for.

8. All purchase and sale of G-sec transactions should be separately subjected to internal audit every quarter and the concurrent audit should ensure that securities transactions adhere to the investment policy. Concurrent auditors should also certify the securities holding of the bank on a quarterly basis.

9. All non SLR investments should be subjected to prescribed single /group exposure norms as well as to the maximum aggregate cap of 10% of the previous year's deposit liabilities.

10. Income on units of mutual funds, and equity of AIFI should be recognized on cash basis and that on G-sec, PSU, and AIFI bonds on accrual basis provided interest is not in arrears.

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