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Impact of Changes in RBI Policies on Trading and Investments of Commercial Banks in India

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ABSTRACT

Investments in various segments of/instruments available in the financial market made by the commercial banks play a very crucial role not only in achieving the return target of banks and managing their liquidity but also in the overall growth and development of the financial market in bank driven and emerging economies like in India. Besides changes in policy rates, changes in prudential norms and guidelines related to the classification and valuation of investments, reserve requirements, liquidity and risk management, etc., released by the Reserve Bank of India from time to time, are expected to have a significant impact on the pattern and magnitude of banks' investments in various channels, and thereby affect the financial market and the financial system of the country.

In this Policy Research Note, efforts are made to understand the possible implication of a few relevant policy changes (actual and proposed since January 2022) on the investments made by commercial banks in India, and on the overall financial market. Changes in various policy rates and reserve ratios announced since April 2022 are found to have a significant impact on bond yields and therefore on trading and investments undertaken by the commercial banks in India. Changes (Actual and Proposed) in the prudential norms for classification and valuation of investments by commercial banks may also affect the nature of their trading and investment activity, which will have further implications for the overall growth of the Indian financial market.

Keywords: Investments, Liquidity, Financial Market, Valuation, Risk Management

JEL Classification Code: G11, G12, G21

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Impact of Changes in RBI Policies on Trading and Investments of Commercial Banks in India

Background

Besides accepting customers' deposits and providing advances to various customers, commercial banks are also engaged in a very important function called trading and investments. Such investments, made in various financial market instruments and/or asset classes, play a vital role for the banks to meet their return targets and liquidity requirements, and also diversify their portfolios. Besides these, in bank-driven emerging economies like India, the type and magnitude of trading and investments undertaken by commercial banks also play a decisive role in the overall growth of the financial market and the financial system in the country. Since commercial banks are strictly regulated by the central bank, their trading and investment activities are largely influenced by the prudential norms/guidelines related to investments, liquidity, and risk management stipulated by the central bank of the country.

In addition to updating its Master Circular on "Classification and Valuation of Investments", the Reserve Bank of India (RBI), in its capacity as the central bank, regularly releases various circulars/notifications/proposed changes related to the management of banks' investments, Asset Liability Management (ALM), Liquidity Management, and Risk Management. All these norms are expected to have direct or indirect implications on trading and investment-related activities undertaken by commercial banks. In this Policy Research Note, efforts are made to understand the possible implication of a few recent policy changes (actual and proposed since January 2022 till date) made by the RBI on trading and investments activities undertaken by commercial banks in India, and also on the overall financial market in India. Needless to say, the treatment is selective and not necessarily exhaustive.

Summary of RBI Circulars/Notification & Discussion Paper

This note intends to refer to a few important RBI Circulars/Notifications which are expected to have some impact on trading and investments made by the commercial banks in India. The concerned circulars/notifications released by the RBI since January 2022 refer to actual and/or proposed changes/modifications in: policy interest rates, reserve (CRR & SLR) requirements, liquidity management, investments classification (HTM, AFS, and HFT), and valuation norms.

In its Master Direction entitled "Classification, Valuation, and Operation of Investment Portfolio of Commercial Banks", RBI intends to incorporate all the existing guidelines/instructions/directives on the concerned subject. After its latest annual release on August 25, 2021 (RBI, 2021), followed by proposing a few important changes in the investments classification and valuation norms in the month of January 2022 (RBI, 2022.a), a few rounds of amendments have also been made during March (RBI, 2022.b) and April 2022 (RBI, 2022.c). Besides these, RBI's unscheduled monetary policy announcement of a sudden but expected hike in the policy rate (RBI, 2022.f), and a rise in the reserve (CRR) requirement (RBI, 2022.e), dated May 4 2022, followed by another hike in the policy rates, dated June 8 2022 (RBI, 2022.g) also have a significant impact on

banks' trading and investment activities. Amendments towards the maintenance of SLR (RBI, 2022.c), announced on April 8 2022, and review of SLR holdings in HTM (RBI, 2022.d), as announced on the same date, would also have some impact on trading and investment activities undertaken by commercial banks in India. Few important norms and amendments/modifications as per the aforesaid circulars, possibly affecting banks' trading and investments, are summarised below:

1. Two subsequent hikes in policy repo rates by 40 bps (in May 4) and 50 bps (in June 8), taking the RBI Repo Rate from 4 per cent to the level of 4.90 per cent, and the SDF Rate from 3.75 per cent to 4.65 per cent.
2. Increasing the CRR by 50 bps, taking it from 4 per cent (post-pandemic) to the level of 4.50 per cent of banks' Net Demand and Time Liabilities (NDTL).
3. Making the balance kept by commercial banks under the Standing Deposit Facility (SDF) with RBI eligible for SLR as a part of "Cash" for SLR maintenance.
4. Reviewing SLR holdings in HTM, enhancing the limit of SLR securities in HTM from the latest post-pandemic level of 22 per cent (pre-pandemic level of 19.50 per cent) to the level of 23 per cent of NDTL, subject to fulfillment of a certain condition, and restoring the original level of 19.50 per cent by March 31 2024 in a phased manner.
5. Reviewing the valuation norms for Banks' investments in special securities received from the Government of India towards bank's recapitalization requirement from FY 2021-22 onwards, classifying them in HTM, and recognizing at their fair value/market value on initial recognition, to be arrived at based on the prices/YTM of similar tenor Central Government securities put out by FBIL.

Besides the above circulars/notifications, the RBI through its Discussion Paper entitled "Review of Prudential Norms for Classification, Valuation, and Operations of Investment Portfolio of Commercial Banks" (RBI, 2022.a), released in the month of January 2022, has proposed a few important changes/modifications related to the classification and valuation of investments made by the commercial banks in India, briefly summarised in Table 1, given in Annexure 1. The proposed changes in the prudential norms for classification and valuation of various instruments in banks' investment portfolios seek to bring the concerned regulatory framework closer to the standards prescribed in the Indian Accounting Standards (Ind-AS) and the International Financial Reporting Standards (IFRS). The proposed changes are stated under eight broader heads: Classification; Initial recognition and measurement; Subsequent measurement; Reclassification between measurement categories; Limits for investments in HTM; Non-SLR securities in HTM; Valuation; and Disclosures.

A few important highlights of the review paper are as follows:

1. Unlike the current guidelines for initial classification and reclassification of investments by the commercial banks, the proposed prudential norms have made both the classification of investments at initial recognition and their subsequent reclassification (if any) quite stringent. Banks' investment portfolio is categorized into three categories viz. Held-to-Maturity (HTM), Available-for-Sale (AFS), and Fair Value through Profit and Loss Account (FVTPL) with a sub-category called Held-for-Trading (HFT), aligned with the specifications of 'Trading Book' as per the Basel III framework.

2. The scope of banks' HTM portfolio is redefined, by considering investments only in debt instruments with fixed or determinable payments and fixed maturity, with few exceptions, and made with the intent of holding the instrument till the maturity. Accordingly, banks are allowed to classify their investments in non-SLR securities, such as corporate bonds, in their HTM portfolio. Banks are allowed to carry equity investments in their subsidiaries, joint ventures, and associates at a cost under HTM, subject to provision for permanent diminution (if any). On the other hand, banks may classify their investments only in those financial instruments satisfying the criterion of sole payments of principal and interest on principal outstanding (SPPI) under the AFS portfolio. Banks shall also have the irrevocable option to classify equity investments at initial recognition under AFS. FVTPL, as the residual category, considers all investments (e.g. SRs, MFs, AIFs, Shares, Derivatives, etc.) that do not qualify for inclusion in HTM or AFS.

3. Ceiling on investments in HTM as a per centage of total investments as also the ceiling on SLR securities held in HTM are proposed to be removed, but after tightening the controls for sales out of HTM to validate the basic principle of classifying securities in HTM and valuing them at cost.

4. Restrictions may be imposed on reclassification between investment categories, except in a situation with a change in the business model duly approved by the supervisor, primarily to maintain the consistency of classification and measurement. Banks may be given an option during the time of transition to reclassify their financial instruments, adjusting the gains/losses on such reclassification through their reserves.

5. A system of undertaking fair valuation is proposed for all investments and derivatives on initial recognition, presuming that acquisition happens at fair value. In case the traded value at initial recognition differs from the fair value, the difference may be adjusted as a Day-1 gain/loss in the P&L account provided the quoted or market prices are available. Banks need to disclose the value of investments in the various categories and the assumptions and methodologies used in the valuation of securities in the investment book.

6. HTM may be kept beyond the purview of MTM after initial recognition, but with a provision of conducting an impairment test and assessing, on a quarterly basis, any permanent diminution in value. In case of any impairment, the same need to be debited to the P&L account. AFS positions need to be marked to market at least on a quarterly basis, and unrealized gains and losses from AFS positions need to be adjusted through the AFS-Reserve account. Securities classified under the HFT sub-category within FVTPL shall be marked to market on a daily basis, and unrealized gains/ losses shall be adjusted against the P&L Account. Quoted prices and market-based inputs (yield curves, credit spreads, etc.) may be used for valuation wherever available. Accordingly, three fair value hierarchies (viz. Level 1, Level 2, and Level 3) are prescribed.

7. Investment Fluctuation Reserve (IFR), eligible as Tier II capital, may be continued, and to be recalibrated to a certain per centage of the AFS and FVTPL portfolio over a phased period.

Impact on Banking and Financial Market

The amendments/modification stated in the concerned RBI circulars/notification, and the proposed changes in the prudential norms for classification and valuation of investments are expected to have a significant impact on the trading and investment activities undertaken by the commercial banks in India. These policy changes are also expected to affect the broader financial market as well, especially the debt securities (G-Sec. and Corporate Bond) market in India. The author in this section attempted to briefly analyse the possible impact of a few important policy changes (actual and proposed).

1. Introducing SDF and Hikes in Policy Repo Rate

Important announcements made by RBI about the policy rates in the last few months are the introduction of the Standing Deposit Facility (SDF) at the initial rate of 3.75 per cent in April 2022, sudden but expected hike in the repo rate by 40 basis points in May 2022, and another expected hike in the policy repo rate by 50 basis points in June 2022. These long-awaited announcements have a significant impact on the Indian economy in general, and on the Indian financial market in particular. SDF was announced majorly to absorb the surplus liquidity and to make the overnight call rate close to the policy rate. The daily weighted average call money rates going below 3.30 per cent before the introduction of SDF experienced an increase of roughly 35 to 40 basis points till the announcement of the first rate hike in May 2022. The rate hike in the lower bound of the LAF corridor by 40 basis points, bringing back the monetary policy rate corridor from 90 bps to 50 bps, has given an indication for a possible hike in the policy repo rate, possibly to the same extent. Accordingly, the market expectation got materialized with the central bank's announcement (RBI, 2022.f) of a 40 bps hike both in the repo rate and the SDF rate, keeping the range of the LAF corridor unchanged at 50 basis points. Policy rates are increased primarily to curb inflation, which has surged over the upper tolerance band due to higher food prices, rising commodity prices, and fuel prices. Further, as expected, RBI in its June Monetary Policy Statement (RBI, 2022.g) has increased the policy repo rate by another 50 basis points, with similar adjustments in the SDF and MSF rates. Accordingly, the revised rates under the LAF corridor stand adjusted to 4.90 per cent, 4.65 per cent, and 5.15 per cent, dated June 8 2022. The impact of the rate hike on the debt securities market is summarised below:

i. GOI Yield Curve shifted Upward in the range of 3 to 33 bps and 20 to 56 bps respectively after the introduction of SDF at 3.75 per cent and hike in RBI Repo Rate by 40 bps, with an average rise in GOI Yield till 10 Years respectively at around 25 bps and 35 bps. This exhibits the market sentiment of rising interest rates, across the yield curve, with a deeper shock in 3 to 7-year yields (an average yield shock of 26 bps and 41 bps respectively after the announcement of SDF and hike in repo rate). But unlike the impact observed during the first hike (by 40 bps) in the repo rate in May 2022, the decision of MPC to further hike the repo rate by 50 bps in the month of June 2022 hardly depicts any major impact on the prevailing market rates including yield on central Govt. securities. The reason here is very obvious. The impact of a second possible hike in the repo rate has already been factored into the market expectations, as seen from the shift of the risk-free yield curve after the first hike till the further hike in the repo rate. After RBI's announcement of the first hike in the policy repo rate in May 2022, till the announcement for the further hike in June 2022, the short-term rates (up to 3 years) on an average have gone up more than 70 basis points, with an average hike

in the risk-free rates (for the entire yield curve) by around 17 bps. This resulted in further steepening of the yield curve at the shorter end. The following figure (Figure 1), not considered as a controlled experiment, depict the pre and post-rate hike scenarios.

ii. After the hike in the repo rate, the term Spread in the short-end (3M to 3Y) of the curve consistently widened. While the Spread for the mid (3 to 7 Y) and long (10 to 40 Y) end of the curve narrowed down respectively by 20 and 10 bps. The widening (narrowing) of the term spread, in a rising rate scenario, indicates steepening (flattening) of the yield curve at the shorter (medium & longer) end. This broadly indicates a rising rate scenario to prevail in the market for the next few years. As already stated above, the immediate impact of the second hike in the policy rate by 50 bps, in June 2022, is very insignificant, with an average fall in the risk-free yield (across the curve) by 3 basis points, possibly depicting the market's expectation for a more bearish (i.e. rise in yield and fall in bond price) bond market scenario before the June announcement.

iii. Secondary market for G-Sec. has deepened after the rate hikes. Outright trade volume experienced a sharp rise almost for all maturities. An important reason for higher volumes in all maturity segments could be fresh holding without selling existing positions due to the rise in bond yields, and therefore fall in the bond prices. But the volumes of outright trade in Central Govt. securities have experienced a subsequent fall, possibly due to market expectation of a further rise in interest rates in the near future, leading to a higher MTM loss, especially for mid-term and long term positions. The short and medium-term segment becomes more popular to enjoy better yield in the future, with limited risk. Even if the market rates almost remain unchanged after the second hike in the policy repo rate in June 2022, the volume of outright trades in the central govt. securities, especially in shorter (3 to 7 years) and medium (7 to 10 years) terms have experienced a significant upward jump, as observed after the first hike in the repo rate in May 2022. The following figure (Figure 2) exhibits the outright trades settled by CCIL during pre and post-announcement of changes in policy rates by RBI from April to June 2022.

iv. Corporate Bond Yield Spreads, compensating for credit and liquidity risk, also experience a significant rise after the hike in the policy rate. Average (of all Rating Grades) change in yield spread is relatively more for Bank/PSU/FI bonds compared to NBFC and Corporate Bonds, possibly due to higher liquidity. Negative Spreads for top-rated securities got narrowed down.

v. Swap (OIS) Rates in India experienced a regular hike, as exhibited in Figure 3. The rising trend in OIS rates indicates a possible rise in the future rate of interest. Short-term OIS rates increased more than that of medium-term rates. OIS rate for 6-months to 1-year tenors has gone up in the range of 90 to 100 basis points after the first rate hike in May 2022. The average rise in OIS rates (for all tenors) after the first hike in the policy repo rate was more than 60 basis points, almost double the hike in g-sec yield at the same time. However interestingly, both the G-sec. and OIS markets are found to react almost equally after the second hike in the repo rate in June 2022, where the average fall in the G-sec. yield and OIS rates (across the curve) are found to be close to 3 basis points. As of the G-Sec. market, since the OIS market had already factored the rate hike immediately after the first rate hike

in May 2022, almost double the expectation observed in the G-sec market, no major rate change is observed, except a fall in the 5-year OIS rate by 22 bps, after the second hike in the policy repo rate in June 2022.

vi. Upward shift in the OIS curve is also accompanied by a significant rise in the trading volume, almost for all tenors, after the first hike in the policy repo rate, as exhibited in Figure 4. The largest volume hike happened in 1 Year contract, followed by 5-year contract. Greater change in Swap rate than change in risk-free yield during the first rate hike in May 2022, followed by a sharp rise in trading volume of the swap contracts indicated a further rise in interest rates in the near future. Accordingly, the significant rise in the volume of OIS deals (especially for 1-year and 5-year) after the first rate hike is broadly attributed to the increasing demand for OIS by banks and other FIs to hedge their exposures. But OIS volumes mostly remain unchanged after the second hike in the policy repo rate in June 2022, again due to the fact that the impact is already factored into after the first rate hike in May 2022.

As experienced worldwide, if the policy rate in India increases further, then in such rising rate scenarios across the curve, commercial banks, with the majority of their investments in debt instruments, would prefer to make high yield investments in debt securities, subject to managing both their ALM mismatches and also possible MTM losses in their trading book. Bond values are expected to fall for every rise in interest rates/bond yield, due to the inverse relationship between interest rate and the market value of debt instruments. Accordingly, banks may prefer to invest and/or trade more in the medium-term (say 7 to 10 years) securities, both to get a better yield and to restrict future MTM losses in a rising interest rate scenario. In such a scenario, banks may prefer to keep their investments till maturity, subject to the HTM limit, and reduce frequent trading, especially in long-term securities. Therefore in such a rising rate scenario, coupled with slower credit growth, banks would prefer to increase the size of their buy-and-hold investment book in Govt. securities and limit trading positions, to avoid higher MTM losses and higher market risk capital requirements.

2. Increase in CRR

Besides hiking the repo rate, the central bank has decided to increase the CRR primarily to absorb the excess liquidity (to an estimated level of INR 87000 crores, as per RBI estimate) from banks, and to control the rising inflationary pressure in the Indian economy. RBI’s move to introduce the SDF at the level of 3.75 per cent led to a situation where a significant portion of daily surplus liquidity had been parked under the SDF in the month of April 2022, which has resulted in the weighted average call money rate (WACR) dipping below the SDF rate. The hike in the CRR, absorbing the surplus liquidity, is also expected to narrow down the spread between the repo rate and the overnight rate, by pushing the latter closer to the former, roughly by 40 bps (from 3.65 per cent to 4.05 per cent). Theoretically, a hike in CRR leads to less amount of money available in the hands of banks for investment in securities, causing a fall in the demand and therefore the price of securities, which results into rising in bond yields. Therefore, both hikes in repo rate and CRR may cause a bearish market for debt securities in India, leading to a good return on investments and better Net Interest Income (NII) for the banks, but with a possible hit on their trading profit, at least for the next few quarters.

3. Making Balance under SDF eligible for SLR

RBI's decision on making the balance kept by commercial banks under the Standing Deposit Facility (SDF) with RBI eligible for SLR as a part of "Cash" for SLR maintenance may not have any direct and observable impact on banks' investment and trading activities in SLR securities (Central and State Govt. Bonds). Since the majority of banks, especially in a situation of lower credit growth, continue to hold excess SLR, this particular norm may not effectively impact banks' investment and trading activities in Govt. securities. In case, banks prefer to maintain short-term liquidity to a reasonable extent by keeping sufficient balance in SDF, are keen to avoid maintaining huge surplus SLR, and intend to increase the size of their advances portfolio, such eligibility of SDF balance as SLR may reduce banks' excessive demand for SLR securities, for trading and/or investments.

4. Hike in SLR Component in HTM

RBI, since the onset of COVID, started increasing the upper limit of investments in SLR securities in HTM. Accordingly, the said limit was initially increased from 19.50 per cent to 22 per cent of NDTL (on September 1 2020), to accommodate securities acquired on or after September 1 2020, up to March 31, 2022. The same limit got further enhanced to 23 per cent (on April 8 2022), to accommodate investment in SLR securities acquired between April 1 2022, and March 31 2023, but with a precondition to restoring the original level of 19.50 per cent by March 31 2024 in a phased manner (22 per cent as on June 30 2023, 21 per cent as on September 30 2023, 20 per cent as on December 31 2023, and finally 19.50 per cent as on March 31 2024). Such limit is enhanced primarily to accommodate banks to park their safer (i.e. free from credit risk) investments in a further safer (i.e. free from market risk) zone during the tough time of insufficient credit growth and adverse market condition (e.g. in rising interest rate scenarios). If banks decide to utilize the additional limit, at least up to some extent, this may create some additional demand for fresh investments in SLR securities, and classify them as long-term investments. On the other hand, this may have an adverse impact on the size of banks' trading portfolio, and therefore the growth and liquidity in the secondary market for Govt. securities. Therefore, such policy announcements may allow banks to increase the size of their investments in HTM, and possibly reduce the market risk in their trading book and the capital requirement. Such a hike in the SLR cap in HTM may be considered as a preparatory step toward the withdrawal of the HTM limit, as proposed in the RBI review paper (January 2022) on prudential norms for classification and valuation of investments. Increasing the limit for HTM investments, without any provision of capturing permanent diminution (if any) of HTM positions, as currently followed by Indian commercial banks, may cause an economic loss for the bank, and also affect the development of the secondary market for debt instruments.

5. Change in Valuation Norms for Recapitalization Bonds

As per the former valuation norms, investments in recapitalization bonds, not eligible for trading and therefore classified as HTM, need not be marked to market and are required to be valued at the cost of acquisition. But subsequently, banks are advised to recognize the market value of the recapitalization bonds received from the Government during 2021-22. Accordingly, banks, require to do the MTM, need to arrive at the fair/market value of the recapitalization bonds on initial recognition on the basis

of the prices/yield of the central govt. securities of similar maturity given by the FBIL. Any difference between the acquisition cost and fair value arrived as above needs to be immediately recognized in the Profit and Loss Account. Even if this new valuation norm may not affect all commercial banks, the public sector banks (PSBs) that have received fresh capital from the Govt. through these recapitalization bonds may experience some impact on their P&L account in the concerned quarter. The impact is even more severe for those banks that have received zero-coupon bonds from the central government and are now likely to value them at deep discounts. This norm enables the concerned banks to make all their HTM investments at par with the fair/market value, at least on initial recognition.

6. Review of Prudential Norms for Classification and Valuation of Investments

The proposed changes in the prudential norms for classification and valuation of investments of commercial banks, highlighted in the discussion paper (RBI, 2022.a), may have the following impact on trading and investment activities undertaken by the commercial banks in India:

i. Stringent initial classification of investments in either of the three categories (HTM, AFS, and FVTPL – HFT), and due disclosure of assumptions and methodologies used in the valuation of securities in the investment book will definitely help to initiate fair investment practices across the important market players. Tradability of both AFS and HFT positions but with different MTM frequencies may be a matter of concern.

   Positions classified as AFS are eligible for trading at any point in time but need to be marked to market only on a quarterly basis. This eligibility for trading but with a lower valuation frequency may allow banks to ignore the market risk in their AFS book. Accordingly, the bank may underestimate the actual level of risk it is exposed to, and therefore may compromise the effectiveness of its risk management strategy. In order to prevent the distortion of the trading book and avoid misclassification, explicit norms may be provided for the sale of investments classified as AFS.

ii. Eligibility of Non-SLR investments in HTM allows the banks to keep their investments away from regular price risk, provided the same is held till maturity, further allowing banks to well diversify their portfolio with relatively more exposures to Non-Govt. securities. Further, incentivizing more investments in corporate bonds allows banks to reduce their credit concentration risk in credit/advances portfolio and also helps banks to improve liquidity and to manage asset-liability mismatches in their balance sheet.

iii. Proposal for withdrawal of HTM limit along with imposing stringent restrictions on reclassifying investments between HTM and trading book, and conducting quarterly impairment tests of HTM positions to check permanent diminution (if any) in their value are a set of smart changes proposed by the RBI to ensure a granular initial classification of investments based on banks' business model (pure investments vs frequent trading). Withdrawal of any limit for classifying investments in HTM supports the business model with pure investments but restricts the possibility to ignore large economic losses due to permanent diminution in the value of such investments through the proposal of conducting a quarterly impairment test. On the other hand, stringent reclassification norms

discourage banks to get the undue advantage of favourable market movements, and to trade in those positions where there was no original intent to trade. Even if there may be a general perception that the trading activity in the secondary market is going to be affected by this proposed change, the same may not be completely valid due to the fact that the trading income made by banks contributes significantly to their overall profitability

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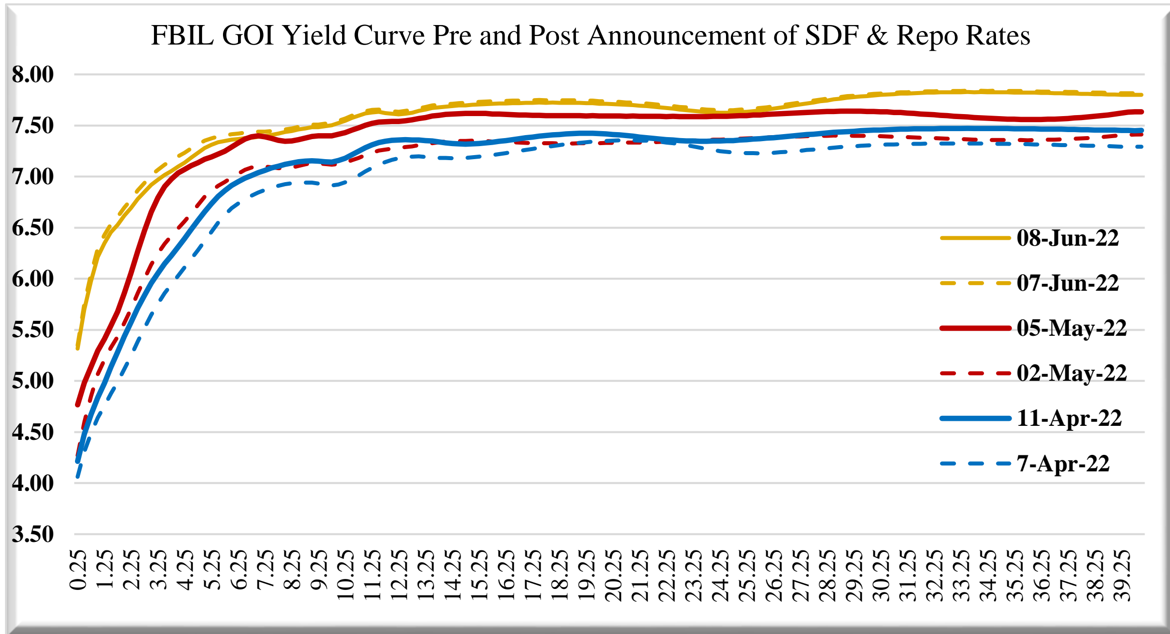
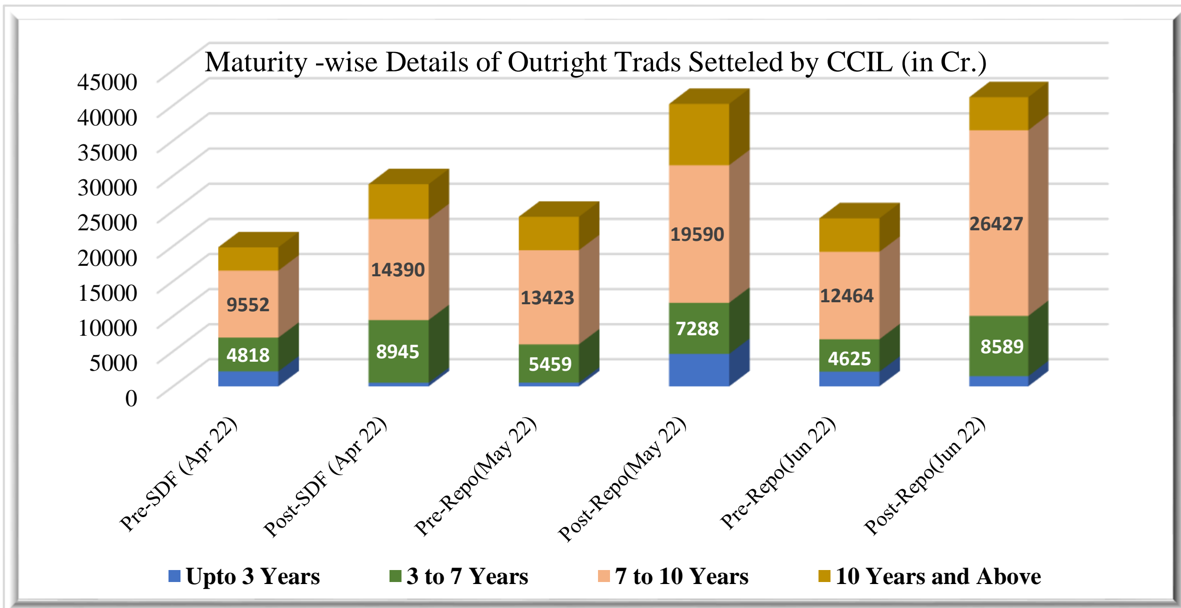
RBI (2022.g) Monetary Policy Statement, 2022-23 Resolution of the Monetary Policy Committee (MPC) June 6-8, 2022.

Figure 1
FBIL GOI Yield Curve (Pre and Post Announcement of SDF & Repo Rates)



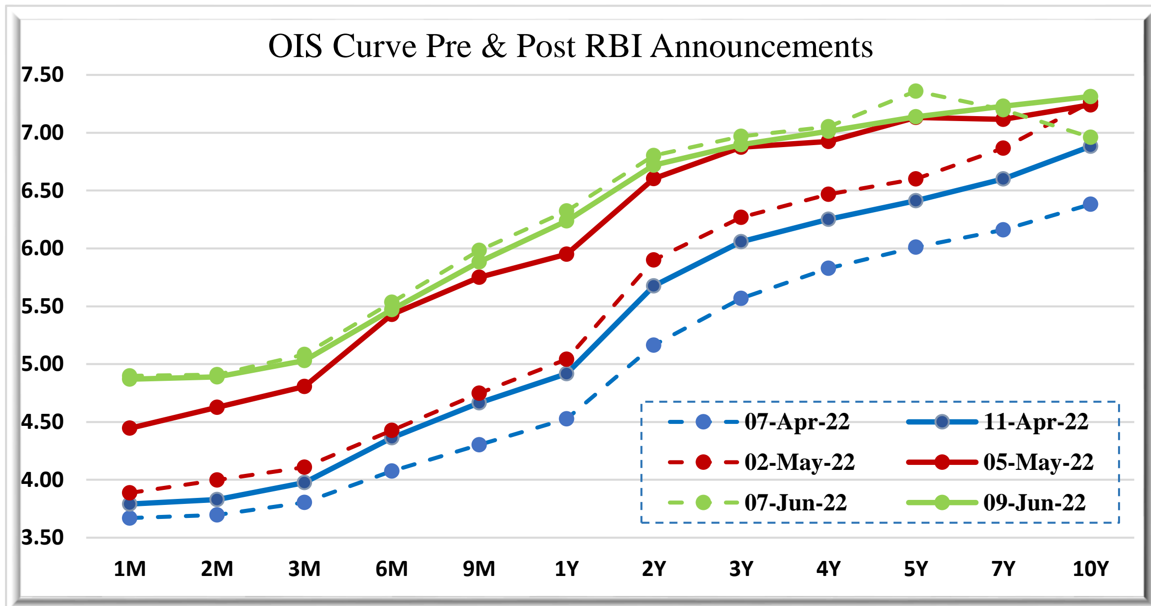
Data Source: Financial Benchmark India Limited (FBIL).

Figure 2
Outright Traded Volume Settled by CCIL (Pre and Post Rates Announcements)



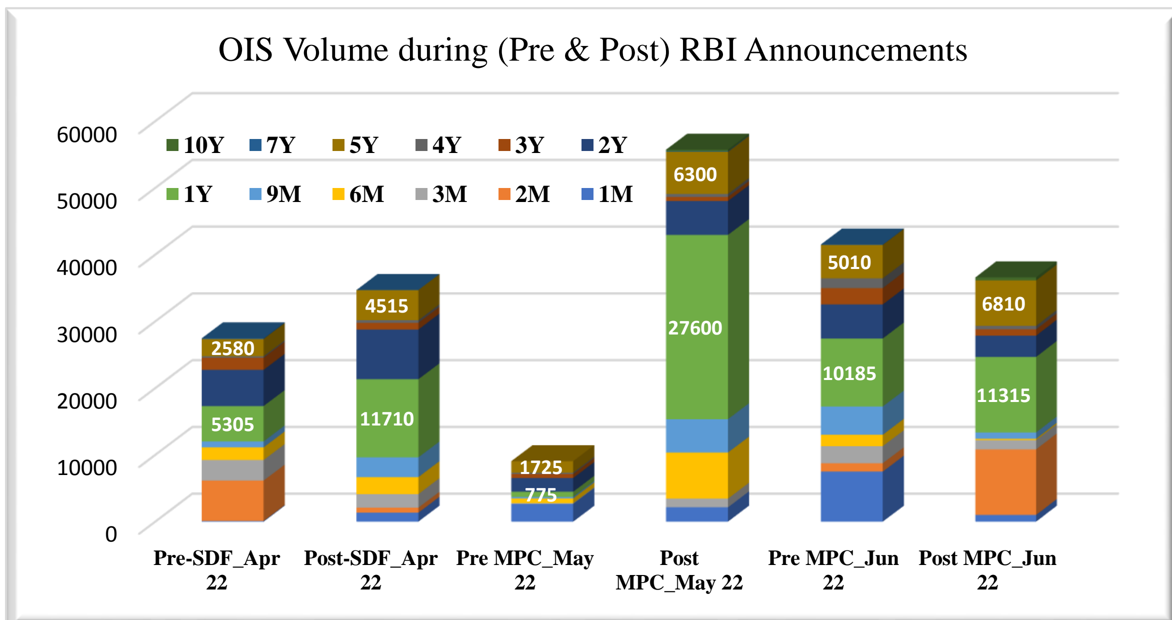
Data Source: CCIL .

Figure 3
OIS Curve during (Pre & Post) RBI Announcement of Policy Rates



Data Source: CCIL.

Figure 4
OIS Trading Volume during (Pre & Post) RBI Announcement of Policy Rates



Data Source: CCIL.

Annexure 1

Table 1
Present V/s Proposed Changes in Investment Classification and Valuation Norms

Sl. No.	*Area of Modification*	*Present RBI Norms*	*Proposed New RBI Norms*
1	Investment portfolio classification	HTM, AFS, HFT	HTM, AFS, FVTPL (with HFT as sub-category)
2	Eligibility criteria for HTM	SLR Securities up to the extent permitted; re-capitalization bonds; equity of subsidiaries and joint ventures; Infrastructure bonds; AIFs) for initial period of three years	Only debt instruments with fixed or determinable payments and fixed maturity with the intent of holding till maturity; both SLR and Non-SLR
3	Ceiling on investments in HTM	19.50 per cent of NDTL (23 per cent of NDTL only till June 2023)	No HTM Ceiling, subjected to the fulfilment of necessary conditions.
4	Securities eligible to be classified in AFS	Financial market instruments which the bank intends to either hold till maturity or sell before maturity	Debt instruments which the bank intends to either hold till maturity or sell before maturity
5	Securities eligible to be classified in HFT / FVTPL	Highly liquid instruments that can be sold within 90 days	SRs, MFs, AIFs, equity shares, derivatives, etc. which do not have any contractually specified periodic cash flows that are solely payments of principal and interest on principal outstanding ('SPPI criterion')
6	Valuation at Initial Recognition	Valuation at acquisition cost	Fair value on initial recognition
7	MTM of HTM positions	No marked-to-market valuation	Need to conduct an impairment test to assess permanent diminution (if any) on a quarterly basis. Diminution (if any) needs to be debited to the P&L account
8	MTM of AFS positions	MTM at least on a quarterly basis, to be adjusted to the IFR.	MTM at least on a quarterly basis, to be adjusted to the AFS-Reserve.
9	MTM of FVTPL-HFT positions	MTM on daily, to be adjusted through the P&L	Securities held within the HFT sub-category shall be subject to daily MTM while other securities within FVTPL shall be marked to market at least on a quarterly basis
10	Reclassification of investments	Reclassifications are allowed generally once a year, beginning of the year	Reclassification between categories shall be prohibited, except at the time of transition, and with approval of the supervisor