भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/DOR/2025-26/329

DOR.MRG.REC.No.248/00-00-017/2025-26 November 28, 2025

Reserve Bank of India (All India Financial Institutions – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025

Table of Contents

Chapter I: Preliminary 3
- **A. Short Title and Commencement** 3
- **B. Applicability** 3
- **C. Definitions** 3

Chapter II: Role of the Board 7

Chapter III: General Guidelines 8
- **A. Investment Policy Framework** 8

Chapter IV: Classification of Investments 10
- **A. Held to Maturity (HTM)** 10
- **B. Available for Sale (AFS) & Held for Trading (HFT)** 11
- **C. Shifting among Categories** 11

Chapter V: Valuation of Investments 14
- **A. Held to Maturity (HTM)** 14
- **B. Available for Sale (AFS)** 15
- **C. Held for Trading (HFT)** 15

Chapter VI: Market Value 16
- **A. Quoted Securities** 16
- **B. Unquoted Securities** 16

Chapter VII: Investments in Government Securities 23
- **A. Transactions through SGL Account** 23
- **B. Government Securities on When Issued Basis** 23
- **C. Value Free Transfer (VFT) of Government Securities** 23
- **D. Separate Trading of Registered Interest and Principal Securities (STRIPS)** 23
- **E. Repo in Government Securities** 25
- **F. Settlement of transactions in Government Securities** 25

Chapter VIII: Investments in Non-Government Securities 27
- **A. Investment in unlisted Non-Government Securities** 27

B. Repoin Corporate Bonds: 30
C. OTC Transactions in CDs, CPs and NCDs (original maturity up to one year): 30
D. Trading and Settlement in Corporate Bonds and Securitised Debt Instruments 30
E. Other requirements 31
F. Role of Boards 31
Chapter IX: Prudential System / Controls 33
A. Internal Control System 33
B. Engagement of Brokers 34
Chapter X: Audit, Review and Reporting 37
Chapter XI: Accounting and Provisioning 39
A. Income recognition 39
B. Accounting for Broken Period Interest 39
C. Investment Reserve Account (IRA) 39
D. Non-Performing Investments (NPI) 41
Chapter XIII: Repeal and Other Provisions 43
A. Repeal and saving 43
B. Application of other laws not barred 43
C. Interpretations 44
Annex I: Reconciliation Statement 45

In exercise of the powers conferred by Section 45L of the Reserve Bank of India Act, 1934, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, the RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby issues the Directions hereinafter specified.

Chapter I: Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (All India Financial Institutions – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025.

2. These Directions shall come into effect from the date of issue.

B. Applicability

3. These Directions shall be applicable to All India Financial Institutions (hereinafter collectively referred to as 'AIFIs' and individually as an 'AIFI'), viz., Export Import Bank of India ('EXIM Bank'), National Bank for Agriculture and Rural Development ('NABARD'), Small Industries Development Bank of India ('SIDBI'), National Housing Bank ('NHB'), and National Bank for Financing Infrastructure and Development ('NaBFID').

C. Definitions

4. For the purpose of these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:

   (1) **'Available for Sale'** means the category of investment portfolio of an AIFI which includes investment that do not fall within the HTM (Held To Maturity) or HFT (Held For Trading) category.

   (2) '**Corporate Bonds / Debentures**' for the purpose of these Directions mean debt securities which create or acknowledge indebtedness, including debentures, bonds, commercial papers, certificate of deposits and such other securities of a company, a multilateral financial institution or a body corporate constituted by or under a Central Act or a State Act, whether constituting a charge on the assets of the company or body

corporate or not, and includes convertible instruments and instruments of a perpetual nature, but does not include debt securities issued by Central Government or a State Government, or such other persons as may be specified by the Reserve Bank, security receipts, and securitised debt instruments.

(3) **'Current or Valid Credit Rating'** means a credit rating granted by a credit rating agency in India, registered with SEBI and fulfilling the following conditions:

i. The credit rating letter shall not be more than one month old on the date of opening of the issue;

ii. The rating rationale shall not be more than one year old on the date of opening of the issue;

iii. The credit rating letter and the rating rationale shall preferably be part of the offer document; and

iv. In the case of secondary market acquisition, the credit rating of the issue shall be in force and confirmed from the website of the respective rating agency.

(4) **'Derivative'** shall have the same meaning as assigned to it in Section 45U(a) of the Reserve Bank of India Act, 1934, as amended from time to time.

(5) **'Exchange'** means 'Recognized stock exchange' and shall have the same meaning as defined in Section 2 (f) of Securities Contracts (Regulation) Act, 1956, as amended from time to time.

(6) **'Government Security'** shall have the same meaning as assigned to it in Section 2(f) of the Government Securities Act, 2006, as amended from time to time.

(7) **'Held For Trading'** means the category of investment portfolio maintained by an AIFI with the intention to trade in securities by taking advantage of short-term price / interest rate movements.

(8) **'Held To Maturity'** means the category of investment portfolio maintained by an AIFI with an intention to hold securities upto maturity.

(9) **'Listed Security'** is a security, which is listed on an exchange.

(10) **'Quoted Security'** is a security for which market prices are available at stock exchanges / reporting platforms / trading platforms, authorised by the Reserve Bank / Securities and Exchange Board of India (SEBI).

(11) **'Rated Security'** means a security which is subjected to a detailed credit rating exercise by a SEBI - registered credit rating agency and shall carry current or valid credit rating.

(12) **'Reconstitution'** shall have the same meaning as defined in the notification IDMD.1762/2009-10 dated October 16, 2009, on '*Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)*'.

(13) **'Repo' and 'Reverse Repo'** shall have the same meaning as defined in Section 45U of the Reserve Bank of India Act, 1934 ('RBI Act'), as amended from time to time. For the purpose of these Directions, the word 'repo' is used to mean both 'repo' and 'reverse repo' with the appropriate meaning applied contextually.

(14) **'Securities'** shall have the same meaning as defined in Section 2(h) of Securities Contracts (Regulation) Act, 1956, as amended from time to time.

(15) **'Securitisation'** shall have the same meaning as defined in Reserve Bank of India (All India Financial Institutions – Securitisation Transactions) Directions, 2025.

(16) **'Securitisation Exposures'** shall have the same meaning as defined in Reserve Bank of India (All India Financial Institutions – Securitisation Transactions) Directions, 2025.

(17) **'Securitised Debt Instrument'** means securities of the nature referred to in Section 2(h)(ie) of the Securities Contracts (Regulation) Act, 1956, as amended from time to time.

(18) **'Security Receipts'** shall have the same meaning as defined in Section 2(1)(zg) of the Securitisation and Reconstruction of Financial Assets and

Enforcement of Security Interest Act, 2002, as amended from time to time.

(19) **‘Stripping’** shall have the same meaning as defined in the notification IDMD.1762/2009-10 dated October 16, 2009, on ‘*Government Securities - Separate Trading of Registered Interest and Principal of Securities (STRIPS)’*.

(20) ‘**Unrated Securities**’ means securities, which do not have a current or valid credit rating by a SEBI-registered credit rating agency.

(21) **‘When, as and if issued’ (commonly known as ‘when-issued’ (WI)) security** means a security as referred to in When Issued Transactions (Reserve Bank) Directions, 2018 issued vide FMRD.DIRD.03/ 14.03.007/2018-19 dated July 24, 2018.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, the RBI Act, rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II: Role of the Board

6. The Board of Directors (Board) shall approve the Investment Policy of the AIFI as specified in paragraph 15.

7. The Board shall set up the Investment Committee which shall take the decision to make investment in securities and be accountable for the investments made by the AIFI as specified in paragraph 15(6).

8. The Board / ALCO / Investment Committee shall approve the shifting of investments among various categories as specified in paragraphs 26 to 31.

9. The Board shall be responsible to ensure proper risk management systems are in place for capturing and analysing the risks in respect of investment in debt securities and for taking timely remedial measures as specified in paragraph 90.

10. The Board shall review the various aspects of investment in debt securities at least on a quarterly basis as specified in paragraph 91.

11. The Board shall be informed post facto of the breach of the upper aggregate contract limit for brokers as specified in paragraph 99.

12. The Board shall ensure that a half-yearly review of the AIFI's investment portfolio as on March 31 and September 30 is undertaken and placed before it within two months by end-May and end-November respectively, as specified in paragraph 101(1).

13. The Audit Committee of the Board (ACB) shall review in every meeting the total fund based and non-fund based capital market exposure of the AIFI, ensure that the guidelines issued by the Reserve Bank are complied with and adequate risk management and internal control systems are in place. With respect to investment in shares, the ACB shall carry out the surveillance and monitoring, as specified in paragraph 101(6).

14. The ACB shall keep the Board informed about the overall exposure to capital market, the compliance with the Reserve Bank and Board guidelines, adequacy of risk management, and internal control systems as specified in paragraph 101(7).

Chapter III: General Guidelines

A. Investment Policy Framework

15. An AIFI shall adopt a comprehensive Investment Policy duly approved by the Board.

    (1) The Investment Policy shall, at the minimum, include the broad investment objectives to be followed while undertaking investment transactions both on its own account and on behalf of clients, define securities in which investments can be made by the AIFI, derivatives in which the AIFI can deal, clearly define the authority to put through deals, procedure to be followed for obtaining the sanction of the appropriate authority, procedure to be followed while putting through deals, adherence to various prudential exposure limits, policy regarding dealing with brokers, systems for management of various risks, guidelines for valuation of the portfolio, and the reporting system.

    (2) The Investment Policy shall be framed to ensure that transactions in securities and derivatives are conducted in accordance with sound and acceptable business practices.

    (3) The Investment Policy shall lay down prudential limits for investment in securities including those on private placement basis, sub-limits for PSU bonds, corporate bonds, guaranteed bonds, issuer ceiling, conservative limits for Zero-Coupon Bonds (ZCBs), etc. An AIFI shall ensure that its investments in issues through private placement do not give rise to systemic concerns.

    (4) The Investment Policy shall stipulate minimum ratings / quality standards and industry-wise, maturity-wise, duration-wise, issuer-wise, etc., limits, for acquiring exposure in corporate bonds & debentures to mitigate concentration risk and the risk of illiquidity.

    (5) The Investment Policy shall cover in detail the procedure for investment in equities and the policy for managing associated risks. An AIFI shall also build an adequate expertise in equity research by establishing a

dedicated equity research department, as warranted by its scale of operations.

(6) The decision to make investment in securities shall be taken by the Investment Committee set up by the AIFI's Board. The Investment Committee shall be held accountable for the investments made by the AIFI.

Explanation: Securities, for the limited purpose of this paragraph, shall mean direct investment in equity shares, preference shares, convertible bonds / debentures, and equity-like products.

(7) All investment proposals shall be subject to the same standards of credit appraisal as any loan proposal.

(8) An AIFI shall refer to the list of defaulters obtained from Credit Information Companies and Central Repository of Information on Large Credits (CRILC) while taking investment decisions.

(9) An AIFI shall make its own internal credit analysis and assign internal rating even in respect of externally rated issues and shall not rely solely on the ratings of external credit rating agencies.

(10) An AIFI shall ensure robust internal credit rating systems which shall also include building up of a system of regular (quarterly or half-yearly) tracking of the financial position of the issuer with a view to ensure continuous monitoring of the rating migration of the issuers / issues.

(11) An AIFI shall settle the transactions in securities and derivatives as per procedure prescribed in notifications / directions / guidelines issued by the concerned regulator.

(12) An AIFI shall hold its investments in securities, privately placed or otherwise, only in dematerialised form.

16. The aforesaid instructions shall be applicable mutatis mutandis, to the subsidiaries established by the AIFI except to the extent they are contrary to or inconsistent with specific regulations of RBI, SEBI, or International Financial Services Centres Authority (IFSCA), governing its operations.

Chapter IV: Classification of Investments

17. An AIFI shall classify its entire investment portfolio under the following three categories: (1) 'Held to Maturity' (HTM), (2) 'Available for Sale' (AFS), and (3) 'Held for Trading' (HFT). An AIFI shall decide the category of the investment at the time of acquisition and the decision shall be recorded on the relevant investment document / proposal.

A. Held to Maturity (HTM)

18. The investments included under HTM category shall not exceed 25 per cent of the AIFI's total investments.

19. Investments in following securities shall be eligible for inclusion under the HTM category:

    (1) Debt securities;

    (2) Equity held in the subsidiaries and joint ventures;

    (3) Re-capitalisation bonds received from the Government of India towards their own re- capitalisation requirement and held in investment portfolio;

    Provided that recapitalisation bonds of other banks / AIFIs acquired for investment purpose shall not be included under HTM category.

    (4) Unquoted shares / bonds / units of Category I and II Alternative Investment Funds (AIFs) for initial period of three years;

    Provided that the period of three years shall be reckoned separately for each disbursement made by the AIFI to Category I and II AIF, as and when the committed capital is called up.

20. The following investments shall not be accounted for the purpose of ceiling of 25 percent specified under paragraph 18 of these Directions:

    (1) Investments as specified in paragraph 19(2) and 19(3) above; and

    (2) Investments made by the AIFI, as per its statutory mandate, in long-term bonds and debentures (i.e., having minimum residual maturity of three years at the time of investment) issued by non-financial entities.

21. Profit on sale of investments in this category shall be first taken to the Profit & Loss Account, and thereafter shall be appropriated to the 'Capital Reserve Account'. The amount so appropriated shall be net of taxes and the amount required to be transferred to Statutory Reserves. Loss on sale of such investments shall be recognised in the Profit & Loss Account.

B. Available for Sale (AFS) & Held for Trading (HFT)

22. An AIFI shall classify the securities acquired with the intention to trade by taking advantage of the short-term price / interest rate movements under 'Held for Trading (HFT)'. Investments classified under HFT shall be sold within 90 days.

23. The securities which do not fall under HTM or HFT shall be classified under 'Available for Sale (AFS)'. However, quoted equity shares / bonds / units of Category I and II AIFs; and equity, debentures and other financial instruments acquired by way of conversion of outstanding principal and / or interest amount shall always be classified in the AFS category.

24. An AIFI shall have the freedom to decide on the extent of holdings under AFS and HFT categories after considering various aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, and capital position.

25. Profit or loss on sale of investments in both the categories shall be taken to the Profit & Loss Account.

C. Shifting among Categories

26. An AIFI shall have the freedom to shift investments to / from HTM category with the approval of the Board once a year.

    Provided that such shifting shall normally be allowed at the beginning of the accounting year.

    Provided further that no additional shifting to / from HTM shall be done during the remaining part of that accounting year unless explicitly permitted by RBI.

27. Investments in unquoted units / shares / bonds of Category I and II AIFs kept in HTM and which have completed three years under HTM category shall be shifted to AFS at the beginning of the next accounting year in one lot to coincide with the annual transfer of investments from HTM category.

28. Transfer of securities from AFS / HFT category to HTM category shall be made at the lower of book value or market value.

Provided that where the market value is higher than the book value at the time of transfer, the appreciation shall be ignored, and the security shall be transferred at the book value.

Provided further that in cases where the market value is lower than the book value, the provision for depreciation held against the security (including the additional provision, if any, required based on valuation done on the date of transfer) shall be adjusted to reduce the book value to the market value and the security shall be transferred at the market value.

29. Transfer of securities from HTM to AFS / HFT category shall be subject to the following conditions:

(1) A security originally placed under the HTM category at a discount, shall be transferred to AFS / HFT category at the acquisition price / book value;

(2) A security originally placed under the HTM category at a premium shall be transferred to the AFS / HFT category at the amortised cost; and

(3) Securities shall be immediately re-valued consequent to transfer and resultant depreciation, if any, shall be provided.

Explanation: Regarding (1) above, an AIFI shall not accrue the discount on the securities held under HTM category and such securities shall be held at acquisition cost till maturity.

30. An AIFI shall have the freedom to shift investments from AFS to HFT with the approval of its Board / ALCO (Asset Liability Committee) / Investment Committee.

Provided that in case of exigencies, such shifting may be done with the approval of the Chief Executive of the AIFI / Head of the ALCO and shall be ratified by the Board / ALCO.

31. Shifting of investments from HFT to AFS shall not be permitted.

Provided that such shifting shall be permitted only under exceptional circumstances where the AIFI is not in a position to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or market becoming unidirectional.

Provided further that such shifting shall be done only with the approval of the Board / ALCO/ Investment Committee.

32. In the case of transfer of securities from AFS to HFT category or vice-versa, the securities need not be re-valued on the date of transfer and the provisions for the accumulated depreciation, if any, held shall be transferred to the provisions for depreciation against the HFT securities and vice-versa.

33. If the value of sales / transfers of securities to / from HTM category exceeds five per cent of the book value of investments held in HTM category at the beginning of the year, the AIFI shall disclose in the 'Notes to Accounts' to the Financial Statements, the market value of the investments held in the HTM category and the excess of book value over market value for which provision is not made.

34. The regulatory limit of five per cent prescribed in paragraph 33 shall not apply to shifting / sale of securities in the following scenarios:

    (1) The one-time transfer of securities to / from HTM category with the approval of Board of Directors undertaken by an AIFI at the beginning of the accounting year;

    (2) Sales to RBI under liquidity management operations of RBI such as the Open Market Operations (OMO) and the Government Securities Acquisition Programme (GSAP);

    (3) Repurchase of Government Securities by Government of India under buyback / switch operations;

    (4) Repurchase of State Government Securities by respective state governments under buyback / switch operations; or

    (5) Additional shifting of securities explicitly permitted by RBI.

Chapter V: Valuation of Investments

A. Held to Maturity (HTM)

35. Investments classified under HTM category shall not be marked to market.

36. The investments shall be carried at acquisition cost unless it is more than the face value, in which case the premium shall be amortised over the period remaining to maturity.

    (1) The amortised amount shall be shown in 'Schedule – Interest Earned - Income on Investments', as a deduction and need not be disclosed separately.

    (2) The book value of the security shall continue to be reduced to the extent of the amount amortised during the relevant accounting period.

37. An AIFI shall recognize and provide individually for any diminution (other than temporary) in the value of each of its investments in subsidiaries / joint ventures, which are included under HTM.

38. An AIFI shall determine whether the impairment has occurred in the following circumstances:

    (1) On the happening of an event which suggests that impairment has occurred, which, at the minimum, shall include:

        i. The company has defaulted in repayment of its debt obligations;

        ii. The loan amount of the company with any financial institution has been restructured; or

        iii. The credit rating of the company has been downgraded to below investment grade.

    (2) When the company has incurred losses for a continuous period of three years and the net worth has consequently been reduced by 25 per cent or more; or

    (3) In the case of new company or a new project when the originally projected date of achieving the break-even point has been extended, i.e., the company or the project has not achieved break-even within the gestation period as originally envisaged.

39. In case impairment assessment is required for an investment in a subsidiary, joint venture, or material investments, an AIFI shall obtain a valuation of the investment by a reputed / qualified valuer and make provisions for the impairment, if any.

40. Notwithstanding the provisions in paragraph 19 above, investments in special securities received from the Government of India towards an AIFI's recapitalisation requirement from FY 2024-25 onwards shall be recognised at fair value / market value on initial recognition in HTM. The fair value / market value of these securities shall be arrived on the basis of the prices / YTM of similar tenor Central Government Securities put out by Financial Benchmarks India Pvt. Ltd. (FBIL). Any difference between the acquisition cost and fair value arrived as above shall be immediately recognised in the Profit and Loss Account.

B. Available for Sale (AFS)

41. The individual securities in the AFS category shall be marked to market at quarterly or more frequent intervals. The book value of the individual securities shall not undergo any change after the marking to market.

42. Securities (both domestic and foreign investments) shall be valued individually (security-wise) and depreciation / appreciation shall be aggregated for arriving at net depreciation / appreciation of investments for each classification [viz., (i) Government securities, (ii) Shares, (iii) Debentures & Bonds, (iv) Subsidiaries / joint ventures, and (v) Others (to be specified)]. Net depreciation, if any, shall be provided for. Net appreciation, if any, shall be ignored.

43. Net depreciation required to be provided for in any one classification shall not be reduced on account of net appreciation in any other classification.

C. Held for Trading (HFT)

44. The individual securities shall be marked to market at monthly or at more frequent intervals and provided for as in the case of those in the AFS category.

45. The book value of the individual securities shall not undergo any change due to marking to market.

Chapter VI: Market Value

A. Quoted Securities

46. The ‘market value’ for the quoted securities shall be the prices declared by the FBIL in accordance with the Reserve Bank circular on ‘Taking over of valuation of Government Securities (G-Sec) by Financial Benchmark India Pvt. Ltd. (FBIL) - valuation of portfolios’ issued vide FMRD.DIRD.7/14.03.025/2017-18 dated March 31, 2018, as amended from time to time. For securities whose prices are not published by FBIL, market price of quoted security shall be as available from the trades / quotes on the stock exchanges / reporting platforms / trading platforms authorized by the RBI / SEBI and prices declared by the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

B. Unquoted Securities

47. Central Government Securities:

    (1) Central Government Securities shall be valued on the basis of the prices / YTM rates put out by the FBIL.

    (2) Treasury Bills shall be valued at carrying cost.

48. Special Securities issued by the Government of India

    All special securities [Oil Bonds, Fertiliser Bonds, bonds issued to State Bank of India (during the 2008 rights issue), Industrial Finance Corporation of India and Food Corporation of India] issued directly by the Central Government shall be valued at a spread of 25 bps above the YTM rates for Central Government Securities of equivalent maturities as published by FBIL.

49. State Government Securities

    State Government Securities shall be valued on the basis of the prices / YTM rates put out by the FBIL.

50. Debentures / Bonds

    (1) All debentures / bonds shall be valued on the YTM basis.

    (2) Debentures / bonds shall be valued with appropriate mark-up over the YTM rates for Central Government Securities as put out by FBIL / FIMMDA.

(3) The mark-up shall be determined according to the ratings assigned to the debentures / bonds by the rating agencies subject to the following:

i. For rated debentures / bonds, the mark-up shall be at least 50 basis points above the rate applicable to a Government of India security of equivalent maturity.

ii. For unrated debentures / bonds, the rate used for the YTM shall not be less than the rate applicable to rated debentures / bonds of equivalent maturity.

Provided that the mark-up for the unrated debentures / bonds shall appropriately reflect the credit risk borne by the AIFI.

iii. Where the debentures / bonds is quoted and there have been transactions within 15 days prior to the valuation date, the value adopted shall not be higher than the rate at which the transaction has been recorded on the exchanges / trading platforms / reporting platforms authorised by SEBI / RBI.

51. Uday Bonds and Bonds issued by State Distribution Companies (Discoms) under Financial Restructuring Plan

(1) UDAY bonds shall be valued on basis of prices / yields published by FBIL.

(2) Bonds issued and serviced by State distribution companies (i.e., when bonds' liabilities are with the state discoms) and which are guaranteed by state governments shall be valued by applying a mark-up of 75 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.

(3) Bonds issued and serviced by State distribution companies (i.e., when bonds' liabilities are with the state discoms) and which are not guaranteed by state governments shall be valued by applying a mark-up of 100 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.

(4) Bonds issued and serviced by the State Government (i.e., when bonds' liabilities are with the State Government) shall be valued by applying a

mark-up of 50 basis points on YTM rates for Central Government Securities of equivalent maturities as published by FBIL.

52. Zero Coupon Bonds (ZCBs)

(1) ZCBs shall be valued in the books at carrying cost which shall be computed by adding the acquisition cost and discount accrued at the rate prevailing at the time of acquisition, which shall be marked to market with reference to the market value.

(2) In the absence of market value, the ZCBs shall be marked to market with reference to the present value of the ZCBs.

Explanation: The present value of a ZCB may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero-coupon spreads put out by FBIL / FIMMDA. In case the AIFI is still carrying the ZCB at acquisition cost, the discount accrued on the instrument shall be notionally added to the book value of the bond, before marking it to market.

53. Preference Shares

(1) The valuation of preference shares shall be on YTM basis.

(2) Preference shares shall be valued with appropriate mark-up over the YTM rates for Central Government Securities put out by the FBIL.

(3) The mark-up shall be graded according to the ratings assigned to the preference shares by the rating agencies subject to the following:

i. The YTM rate shall not be lower than the coupon rate / YTM for a Central Government Security of equivalent maturity;

ii. For unrated preference shares, the rate used for the YTM shall not be less than the rate applicable to rated preference shares of equivalent maturity and shall appropriately reflect the credit risk borne by the AIFI;

iii. Where investment in preference shares is as part of rehabilitation, the YTM rate shall not be lower than 1.5 per cent above the coupon rate / YTM for Central Government Security of equivalent maturity; and

iv. Where preference dividends / coupons are in arrears, no credit shall be taken for accrued dividends / coupons and the value determined on YTM basis shall be discounted by at least 15 per cent if arrears are for one year, 25 per cent if arrears are for two years, so on and so forth (i.e., with 10 per cent increments with addition of each year of arrears). The overarching principle should be that valuation shall be based on conservative assessment of cash flows and appropriate discount rates to reflect the risk. Statutory Auditors should also specifically examine as to whether the valuations adequately reflect the risk associated with such instruments. The depreciation / provision requirement arrived at in the above manner in respect of non-performing shares where dividends are in arrears shall not be allowed to be set-off against appreciation on other performing preference shares.

(4) Investments in preference shares as part of the project finance shall be valued at par for a period of two years after commencement of production or five years after subscription, whichever is earlier.

(5) The preference share shall not be valued above its redemption value.

(6) When a preference share has been traded on stock exchange within 15 days prior to the valuation date, the value shall not be higher than the price at which the share was traded.

54. Equity Shares

(1) The equity shares in the AIFI's portfolio shall be marked to market preferably on a daily basis, but at least on a weekly basis.

(2) The unquoted equity shares or equity shares where current quotations are not available, shall be valued at 'break-up' value (without considering revaluation reserves, if any) to be derived from the company's latest balance sheet. The date as on which the latest balance sheet is drawn up shall not precede the date of valuation by more than 18 months.

(3) In case, the latest balance sheet is not available, the shares shall be valued at ₹1/- per company.

55. Mutual Funds Units (MF Units)

(1) Investment in unquoted MF Units shall be valued on the basis of the latest re-purchase price declared by the MF in respect of each Scheme.

(2) In case of funds with a lock-in period, where repurchase price / market quote is not available, MF Units shall be valued at Net Asset Value (NAV). If NAV is not available, these shall be valued at cost, till the end of the lock-in period.

56. Commercial Paper (CP)

Commercial Paper shall be valued at the carrying cost.

57. Investment in securities issued by Asset Reconstruction Companies (ARCs)

(1) Investments in the Security Receipts (SRs) / Pass-Through Certificates (PTCs) issued by ARCs, in respect of the financial assets sold by an AIFI to them, shall be recognised at the lower of:

i. the redemption value of the SRs /PTCs; and

ii. the Net Book Value (NBV) (i.e., Book value less provisions held), of the financial asset.

(2) The above investment shall be carried in the books of the AIFI at the price as determined above until its sale or realisation, and on such sale or realisation, the loss or gain shall be dealt with as under:

i. The shortfall arising due to sale to ARC at a price lower than the net book value (NBV) (i.e., book value less provisions held) shall be debited to the Profit and Loss Account of that year. An AIFI shall have the option to use countercyclical / floating provisions for meeting any shortfall on such sale; and

ii. If the sale value is higher than the NBV, the AIFI shall have the option to reverse the excess provision on sale of NPAs to its Profit and Loss Account in the year the amounts are received.

Provided that the reversal of excess provision arising out of sale of NPAs shall be limited only to the extent cash received (by way of initial consideration and / or redemption of SRs / PTCs) is higher than the net book value (NBV) of the asset.

(3) The valuation, classification, and other norms applicable to investment in non - Government debt securities prescribed by RBI from time to time shall be mutatis–mutandis applicable to an AIFI's investment in debentures / bonds / security receipts / PTCs issued by ARC.

Provided that for valuation of instruments issued by ARC which are limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme, the AIFI shall reckon the NAV obtained from ARC from time to time.

58. Investment in Category I and II Alternative Investment Funds (AIFs)

(1) The quoted equity shares / bonds / units of Category I and II AIFs shall be marked to market preferably on a daily basis, but at least on a weekly basis.

(2) Unquoted shares / bonds / units of Category I and II AIFs transferred from HTM to AFS category after completion of three years shall be valued as under:

i. Units: Valuation shall be done at the NAV shown by the Category I and II AIF in its financial statements. Depreciation, if any, on the units based on NAV shall be provided at the time of shifting the investments to AFS category from HTM category as also on subsequent valuations which shall be done at quarterly or more frequent intervals based on the financial statements received from the AIF. At least once in a year, the units shall be valued based on the audited results. However, if the audited balance sheet / financial statements showing NAV figures are not available continuously for more than 18 months as on the date of valuation, the investments shall be valued at ₹1/- per AIF.

ii. Equity: Valuation shall be done at the required frequency based on the break-up value (without considering 'revaluation reserves', if any) which shall be ascertained from the company's (AIF's) latest balance sheet (which shall not be more than 18 months prior to the date of valuation). Depreciation, if any on the shares shall be provided at the time of shifting the investments to AFS category as also on subsequent valuations which shall be done at quarterly or more frequent intervals. If the latest balance sheet available is more than 18 months old, the shares shall be valued at ₹1/- per AIF.

iii. Bonds: The investment in the bonds of Category I and II AIFs, if any, shall be valued as per guidelines prescribed for quoted / unquoted bonds in these Directions.

59. Investment in equity / debt / other financial instruments acquired by way of conversion of outstanding advances:

(1) Equity, debentures, and other financial instruments acquired by way of conversion of outstanding principal and / or interest shall be valued in accordance with the instructions on valuation of AIFI's investment portfolio prescribed in these Directions.

(2) Equity classified as standard asset shall be valued either at market value, if quoted, or at break-up value ascertained from the company's latest balance sheet, if not quoted (without considering the 'revaluation reserve', if any). The date as on which the latest balance sheet is drawn up shall not precede the date of valuation by more than 18 months. In case the latest balance sheet is not available, the equity shares of the company held by the AIFI shall be valued at ₹1/-.

(3) Equity classified as NPA shall be valued at market value if quoted and in case it is not quoted it shall be valued at ₹1/-.

(4) Depreciation on the instruments acquired by way of conversion, whether classified as standard or NPA, shall not be offset against the appreciation in any other securities held under the AFS category.

Chapter VII: Investments in Government Securities

60. In addition to the instructions mentioned above, the following instructions shall be followed while transacting in Government Securities:

A. Transactions through SGL Account

61. Transactions in Government Securities shall be undertaken through SGL / CSGL account, under the Delivery Versus Payment System, in accordance with the guidelines issued by the RBI.

B. Government Securities on When Issued Basis

62. Transaction undertaken on 'When Issued' basis in Government Securities, shall be subject to the guidelines specified in the When Issued Transactions (Reserve Bank) Directions, 2018 issued vide FMRD.DIRD.03/14.03.007/2018-19 dated July 24, 2018.

C. Value Free Transfer (VFT) of Government Securities

63. Value free transfer in Government securities, shall be subject to the guidelines specified in Value Free Transfer (VFT) of Government Securities – Guidelines issued vide IDMD.CDD.No.S930/11.22.003/2021-22 dated October 5, 2021, as amended from time to time.

D. Separate Trading of Registered Interest and Principal Securities (STRIPS)

64. Stripping / reconstitution of Government Securities shall be subject to the conditions laid down in Guidelines on Stripping / Reconstitution of Government Securities issued vide IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010, read with and Stripping / Reconstitution in State Government Securities issued vide IDMD.RD.S390/10.18.060/2025-26 dated June 12, 2025, provided that accounting and valuation of such transactions shall be done as under:

    (1) STRIPS shall be valued and accounted for as zero-coupon bonds and in the manner prescribed in these Directions.

    (2) The discount rates used for valuation of STRIPS at inception shall be market-based. However, in case traded zero-coupon rates are not available, the zero coupon yields published by FBIL shall be used instead.

(3) Accounting entries in the SGL accounts as a consequence of stripping / reconstitution, shall be passed at the face value. SGL account of participant placing request for stripping shall be debited by the face value of the Government Security, and shall be simultaneously credited with the aggregate face value of Coupon STRIPS (equal to the aggregate coupon amounts) as well as the face value of Principal STRIPS (equal to the face value of the Government Security) (refer illustration given in Annex 3 of circular no. IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010).

(4) On the day of stripping, the STRIPS shall be recognised in the books of account of the participant at their discounted value and at the same time, the Government Security in question shall be derecognised. The accounting treatment for reconstitution shall be exactly the opposite of stripping. The detailed procedure for accounting of STRIPS is given below:

i. The stripping / reconstitution shall not result in any profit or loss. The present value of the STRIPS (coupon as well as principal) discounted using the Zero Coupon Yield Curve (ZCYC) shall be normalized using a factor that will be the ratio of the book value or market value of the security (whichever is lower) to the sum total of the market value of all STRIPS created out of the security (refer illustration given in Annex 4 of circular no. IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010).

ii. An AIFI can strip eligible Government Securities held under the AFS / HFT category of their investment portfolio.

iii. In case STRIPS are created from securities held in the HTM portfolio, the securities shall be transferred from the HTM category to the AFS / HFT category as per these Directions. Thereafter, the lower of the book value / market value shall be used for normalizing the market value of individual STRIPS to the book value / market value. Post-stripping, the book value / market value of the existing securities shall be derecognised and replaced by the normalized value of STRIPS whose sum total shall exactly equal the book value / market value of the extinguished security (thereby ensuring that there is no profit or loss on account of stripping). Any appreciation, arising due to the shifting of the security from HTM shall be ignored. The same methodology shall be followed for securities that are stripped from the AFS / HFT portfolio.

iv. Before a security is stripped, it shall be marked to market. Appreciation, if any, shall be ignored and depreciation, if any, shall be recognised, if the market value is lower than the book value. Such depreciation shall not be aggregated for the purpose of arriving at net depreciation / appreciation of investment under the AFS / HFT category. The book value / market value of the security, whichever is lower, shall be used to normalise the STRIPS.

v. Normalisation principle, on stripping / reconstitution shall be applied on the clean price of the security (without considering the accrued interest) as the accrued interest is booked as income / expenditure.

vi. Normalisation shall also be applied in the case of reconstitution (even when STRIPS are acquired from the market).

vii. The book value of the STRIPS (ZCBs) shall be valued and marked to market as per these Directions. Accordingly, the book value of the STRIPS shall be marked up to the extent of accrued interest before MTM.

E. Repo in Government Securities

65. Repo transactions (including reverse repo transactions) entered by an AIFI shall be subject to the guidelines specified in Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018.

F. Settlement of transactions in Government Securities

66. The settlement of transactions in Government Securities shall be governed in accordance with the guidelines issued by RBI.

67. All the transactions put through by an AIFI, either repo transaction or on outright basis shall be reflected on the same day in its investment account.

68. An AIFI shall follow ‘Settlement Date’ accounting for recording purchase and sale of transactions in Government Securities.

Chapter VIII: Investments in Non-Government Securities

69. In addition to the above-mentioned instructions, an AIFI shall adhere to the following instructions while investing in non-government debt securities in the primary as well as the secondary market.

    Explanation: Non-government securities for this Chapter means securities issued by corporates, banks, financial institutions, and State and Central Government sponsored institutions, Special Purpose Vehicles (SPVs), etc., units of debt- oriented mutual funds, i.e., schemes where majority of corpus is invested in debt securities, units of liquid / short term debt schemes (by whatever name called) and shall also include capital gains bonds.

70. An AIFI shall invest only in listed non-government debt securities of companies which comply with the requirements of the SEBI, except to the extent permitted in paragraphs 71 to 75 below.

A. Investment in unlisted Non-Government Securities

71. The total investment in the unlisted non-Government securities shall not exceed 10 per cent of the AIFI's total investment in non-government securities as on March 31 (June 30 in case of National Housing Bank) of the previous year.

    Provided that such investments shall comply with the disclosure requirements as prescribed by SEBI for listed companies.

    Provided further that investment in non-government securities (both primary and secondary market) where the security is proposed to be listed on the Exchange(s) shall be considered as investment in listed security at the time of making investment.

    Provided further that in case such security is not listed within the period specified between issuance and listing, the same shall be reckoned for the 10 per cent limit specified for unlisted non-government securities.

    Provided further that in case such investments included under unlisted non-government securities leads to a breach of 10 per cent limit, the AIFI shall not be allowed to make further investments in non-government securities (both primary and secondary market) as also in unrated bonds issued by companies engaged in infrastructure activities till such time the AIFI's investment in unlisted non-government securities comes within the limit of 10 per cent.

72. An AIFI is permitted to make investment in unlisted non-Government securities of additional 10 per cent over and above the limit of 10 per cent specified in paragraph 71 above.

Provided that such investment is in Securitisation papers issued for infrastructure projects, and bonds / debentures issued by Securitisation Companies (SCs) and Reconstruction Companies (RCs) registered with RBI.

73. Investment in units of mutual fund schemes having an exposure to unlisted securities of less than 10 per cent of the corpus of the fund, shall only be treated on par with listed securities for the purpose of compliance with the prudential limits prescribed above.

Explanation: Exposure to the unlisted securities for compliance with the norm of less than 10 per cent of the corpus of the mutual fund scheme, shall not include Treasury Bills, Tri- Party Repo, Repo / Reverse Repo, and Bank Fixed Deposits in the numerator.

74. Investment in the following securities shall not be reckoned as 'unlisted non-government securities' for computing compliance with the prudential limits prescribed in these Directions:

(1) Securities directly issued by the Central and State Governments, the units of Gilt Funds and securities directly issued by foreign sovereigns;

(2) Equity Shares;

(3) Units of the equity oriented mutual funds scheme, i.e., the schemes wherein a major part of their corpus is invested in equity;

(4) Equity / Debt instruments / Units issued by Category I and II AIFs;

(5) Commercial Paper;

(6) Certificates of Deposit;

(7) Non-Convertible Debentures (NCDs) with original or initial maturity up to one year issued by corporates (including NBFCs);

(8) Securities acquired by way of conversion of debt, subject to periodic reporting to the Reserve Bank;

(9) Security Receipts issued by SCs / RCs registered with the RBI;

(10) Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS), rated at or above the minimum investment grade; and

(11) Unlisted convertible debentures (Investments in these instruments shall be treated as 'Capital Market Exposure').

75. An AIFI shall compute the denominator, i.e., 'total non-government investments', in the prudential cap stated above, by totalling investments classified under the following four categories in Schedule to the balance sheet, viz., 'shares', 'bonds & debentures', 'subsidiaries / joint ventures', and 'others'.

76. An AIFI shall not invest in non-government securities of original maturity of less than one-year.

Provided that the above restriction shall not apply to investments in CPs, CDs, and NCDs with original or initial maturity up to one year issued by corporates (including NBFCs), which are covered under the Reserve Bank guidelines.

77. An AIFI shall not invest in ZCBs issued by corporates (including those issued by NBFCs).

Provided that the above prohibition shall not apply in cases where the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / Government Securities.

78. An AIFI shall not invest in Low Coupon Bonds which carry very low coupons that are not market related and are redeemed at maturity with substantial premium.

Provided that the above prohibition shall not apply in cases where the issuer builds up a sinking fund to the extent of the difference in the accrued interest calculated on the basis of YTM applicable to the bond and the actual coupon payable on the bond and keeps it invested in liquid investments / securities such as Government bonds.

79. An AIFI shall not invest in unrated debt securities.

Provided that the AIFI shall have the option to invest in unrated bonds of companies engaged in infrastructure activities, within the ceiling of 10 per cent for unlisted non-Government securities as referred in paragraph 71 of these Directions.

Provided further that this provision is not applicable on investments in securities referred in paragraph 74 of these Directions.

B. Repo in Corporate Bonds:

80. An AIFI shall undertake repo in corporate bonds as per Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 .

C. OTC Transactions in CDs, CPs and NCDs (original maturity up to one year):

81. Investment in CPs and NCDs (original maturity up to one year) shall be as per guidelines given in Master Direction – Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year) Directions, 2024 .

82. Investment in CDs shall be as per guidelines given in Master Direction – Reserve Bank of India (Certificate of Deposit) Directions, 2021 .

D. Trading and Settlement in Corporate Bonds and Securitised Debt Instruments

83. Trades in listed corporate bonds shall be executed as per guidelines issued by SEBI.

84. All the secondary market OTC trades in corporate bonds and securitised debt instruments shall be reported within fifteen minutes of the trade on any of the stock exchanges (NSE, BSE, and MCX-SX) regulated by SEBI.

85. All OTC trades in corporate bonds and securitised debt instruments shall be cleared and settled through the National Securities Clearing Corporation Ltd. (NSCCL) or Indian Clearing Corporation Ltd. (ICCL) or MCX-SX Clearing Corporation Ltd. (MCX-SX CCL) as per the norms specified by the NSCCL, ICCL and MCX-SX CCL from time to time.

E. Other requirements

86. An AIFI shall undertake usual due diligence in respect of investments in non-Government securities.

87. An AIFI shall ensure that credit facilities for activities / purposes precluded by the RBI regulations are not financed by way of funds raised through the non-Government securities.

88. Except for unrated securities permitted in these Directions, an AIFI shall make investment in the debt securities with a credit rating of not less than investment grade from a Credit Rating Agency registered with the SEBI.

89. Disclosure requirements in offer documents:

    (1) The investing AIFI shall file a copy of all offer documents with all Credit Information Companies (CICs) which have obtained certificate of registration from the Reserve Bank in terms of Section 5 of the Credit Information Companies (Regulation) Act, 2005, as amended from time to time. When the AIFI itself raises debt through private placement, it shall also file a copy of the offer document with all the CICs. The investing AIFI shall also report any default relating to payment of interest / repayment of instalment in respect of any privately placed debt to all the CICs along with a copy of the offer document.

    (2) An AIFI shall disclose the details of the issuer composition of non-Government investments and the non-performing non-Government investments in the 'Notes to Accounts' of the balance sheet, as per Reserve Bank of India (All India Financial Institutions – Financial Statements: Presentation and Disclosures) Directions, 2025.

F. Role of Boards

90. The Board shall ensure proper risk management systems are in place for capturing and analysing the risks in respect of investment in debt securities and for taking timely remedial measures.

91. The Board shall review the following aspects of investment in debt securities at least on a quarterly basis:

    (1) Total turnover (investment and divestment) during the reporting period;

(2) Compliance with the prudential limits prescribed by the Board for such investments;

(3) Compliance with the prudential guidelines issued by the RBI on such investments;

(4) Rating migration of the issuers / issues held in the AIFI's books and consequent diminution in the portfolio quality;

(5) Adequacy of the systems and procedures prescribed under AIFI's Investment Policy for investment in privately placed instruments; and

(6) Extent of non-performing investments in the portfolio category.

Chapter IX: Prudential System / Controls

A. Internal Control System

92. An AIFI shall, at a minimum, adhere to the instructions prescribed in this Chapter for establishing a robust internal control system in respect of investment transactions.

(1) There shall be a clear functional separation of (a) trading, (b) settlement, (c) monitoring and control, and (d) accounting.

(2) There shall be a functional separation of trading and back-office functions relating to AIFI's own Investment Accounts, and other Constituents (including brokers') accounts.

(3) For every transaction entered into, the trading desk shall prepare a deal slip which shall contain data relating to nature of the deal, name of the counterparty, whether it is a direct deal or through a broker, and if through a broker, name of the broker, details of security, amount, price, contract date and time. The deal slips shall be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for. Once the deal is concluded, the dealer shall immediately pass on the deal slip to the back office for recording and processing. For each deal, there shall be a system of issue of confirmation to the counterparty. Back-office shall monitor the timely receipt of requisite written confirmation from the counterparty, which shall include all essential details of the contract.

(4) Checks and balances such as periodic reconciliation of the investment book not later than once a quarter, procedure for recording, verification and passing vouchers, contract verification, valuation of portfolios, monitoring of prudential limits and risk limits, and monitoring of cancelled deals shall be put in place. Processes and controls for compliance with legal and regulatory requirements of reporting deals on various platforms shall be put in place.

(5) An AIFI shall adhere to the FIMMDA code of conduct while executing trades in Government Securities on NDS-OM and in the OTC market.

(6) Transactions in Government Securities, money market instruments (call / notice / term money, CPs, CDs, repo in corporate bonds, and Government Securities, non-convertible debentures of original maturity less than one year etc.), derivatives, and other instruments shall be undertaken as per instructions issued by RBI.

(7) Balances of Government Securities as per the AIFI's books shall be reconciled at quarterly intervals with the balances in the books of Public Debt Office (PDO), Mumbai. If the number of transactions so warrant, the reconciliation should be undertaken more frequently, say monthly. The internal audit department shall periodically check this reconciliation.

(8) An AIFI shall ensure that the stockbrokers as directors on its Board or in any other capacity, do not involve themselves in any manner with the Investment Committee or in the decisions about making investments in shares, etc., or advances against shares.

(9) An AIFI shall put in place a system to report to the Top Management, on a weekly basis, the details of transactions in securities, details of bouncing of SGL, and a review of investment transactions undertaken during the period.

(10) The AIFI's management shall ensure that there are adequate internal control and audit procedures for ensuing proper compliance of instructions regarding the investment portfolio.

B. Engagement of Brokers

93. An AIFI shall, at the minimum, adhere to the instructions prescribed paragraphs 93-100 for engaging the service of brokers.

(1) An AIFI engaging services of brokers shall ensure that the role of the broker shall be restricted to that of bringing the two parties to the deal together.

Provided that transactions between one AIFI and a bank / other AIFI shall not be put through the brokers' accounts.

Provided further that the above prohibition shall not apply to securities transactions undertaken with banks or non-bank clients through members of the National Stock Exchange (NSE), BSE (formerly known as Bombay Stock Exchange) and MCX Stock Exchange (MCX-SX).

Explanation: The broker is not obliged to disclose the identity of the counterparty before the conclusion of the deal.

Explanation: Although the Securities Contracts (Regulation) Act, 1956 defines the term ‘securities' to mean corporate shares, debentures, Government Securities and rights or interest in securities, the term ‘securities' here would exclude corporate shares.

Explanation: The Provident / Pension Funds and Trusts registered under the Indian Trusts Act, 1882, shall be outside the purview of the expression ‘non-bank clients’.

94. The brokerage on the deal payable to the broker, if any (if the deal was put through with the help of a broker), shall be clearly indicated on the notes / memorandum put up to the Top Management seeking approval for putting through the transaction.

95. On conclusion of the deal, the AIFI shall ensure that the broker note clearly indicates name of the counterparty and exact time of the deal. Its back-office shall ensure that the deal time on the broker note and the deal ticket is the same. The AIFI shall also ensure that its concurrent auditors review this aspect.

96. The brokers shall not have any role in the process of settlement of deals. The settlement of the deal, viz., both fund settlement and delivery of security, shall take place directly between the counterparties.

97. An AIFI shall not transact in Government Securities in physical form with any broker.

98. An AIFI shall, with the approval of its Top Management, prepare a panel of approved brokers which shall be reviewed annually or more often if so warranted. The criteria for empanelment of brokers shall include, at the minimum, prior experience, creditworthiness, market reputation and details of regulatory action, if any. The AIFI shall maintain a record of broker-wise details of deals put through and brokerage paid.

99. Prudential Limits

An AIFI shall ensure that a disproportionate part of the business is not transacted through only one or a few brokers. The AIFI shall fix aggregate contract limits for each of the approved brokers. The aggregate upper contract limit for each of the approved brokers shall be restricted to a limit of 5 per cent of total transactions (both purchase and sales) entered into by an AIFI through all brokers during a year.

Provided that the limit shall be observed with reference to the year under review and the AIFI shall keep in view the expected turnover of the current year which shall be based on turnover of the previous year and anticipated rise or fall in the volume of business in the current year.

Provided further that if for any reason it becomes necessary to exceed the aggregate limit for any broker, the AIFI shall record in writing the specific reasons for such breach and the Board shall be informed, post-facto.

Provided further that the business put through any individual broker or brokers in excess of the limit, with the reasons for the same, shall be covered in the half-yearly review to the Board / Local Advisory Board.

Provided further that the limit of 5 per cent shall not apply to dealings through Primary Dealers.

Explanation: This limit shall cover both the business initiated by an AIFI and the business offered / brought to the AIFI by a broker.

100. These instructions shall mutatis-mutandis apply to subsidiaries of the AIFI.

Chapter X: Audit, Review and Reporting

101. An AIFI shall, at the minimum, adhere to the following instructions in regarding to audit, review, and reporting of investment transactions:

(1) An AIFI shall undertake a half-yearly review of its investment portfolio as on March 31 and September 30, and place the same before its Board within two months by end-May and end-November. The review shall cover, at the minimum, operational aspects of investment portfolio, amendments made to the Investment Policy, major irregularities observed in all audit reports, compliance position thereto and certify adherence to laid down internal Investment Policy and procedures and Reserve Bank guidelines.

Explanation: National Housing Bank shall undertake a half-yearly review (as of June 30^{th} and December 31^{st}) of its investment portfolio and place the same before the Board within two months, i.e., by end-September and end-February.

(2) A copy of the review report put up to the AIFI's Board, shall be forwarded to the concerned office of Department of Supervision (DoS) by June 15 and December 15 (October 15 and March 15 for National Housing Bank), every year.

(3) Treasury transactions shall be separately subjected to concurrent audit by internal auditors and the results of their audit shall be placed before the Chairman / Managing Director (MD) of the AIFI once every month.

(4) The business done through brokers shall be audited by the same concurrent auditors who audit the treasury operations of the AIFI, and the audit report shall be included in their monthly report to the Chairman / MD of the AIFI.

(5) The internal audit shall cover the transactions in securities on an ongoing basis, monitor compliance with the laid down management policies / prescribed procedures and report deficiencies directly to the management.

(6) The ACB shall review in every meeting the total fund based and non-fund based capital market exposure of the AIFI, ensure that the guidelines issued by RBI are complied with and adequate risk management and internal control systems are in place. With respect to investment in shares, the surveillance and monitoring shall be done by the ACB.

(7) The ACB shall keep the Board informed about the overall exposure to capital market, the compliance with RBI and Board guidelines, adequacy of risk management and internal control systems.

(8) An AIFI shall institute a regular system of monitoring compliance with the prudential and other guidelines issued by RBI. The AIFI shall get compliance in key areas certified by its statutory auditors and furnish such audit certificate to the Regional Office of DoS, RBI under whose jurisdiction the Head Office of the AIFI falls.

(9) Reconciliation of holdings of Government Securities – Audit Certificate

i. An AIFI shall furnish a 'Statement of the Reconciliation of AIFI's Investments', as at the end of every accounting year duly certified by its auditors. The statement shall be submitted to the Regional Office of the DoS, RBI under whose jurisdiction the AIFI's Head Office is located, within one month from the close of the financial year.

ii. The aforementioned requirement of reconciliation shall suitably be included in the letters of appointment issued to the external auditors.

iii. The format for the statement and the instructions for compiling the same are given in Annex I.

Chapter XI: Accounting and Provisioning

A. Income recognition

102. An AIFI shall recognize income on accrual basis for the following:

(1) securities of corporate bodies / public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government, provided interest is serviced regularly and as such is not in arrears.

(2) shares of corporate bodies provided dividend has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.

(3) Government securities and bonds and debentures of corporate bodies, where interest rates on these instruments are predetermined and provided interest is serviced regularly and is not in arrears.

103. Income from units of mutual funds shall be recognised on cash basis.

B. Accounting for Broken Period Interest

104. An AIFI shall not capitalise the broken period interest paid to the seller as part of cost and treat it as an item of expenditure under Profit & Loss Account in respect of investments in government securities.

Explanation: This accounting treatment does not take into account the tax implications and the AIFI shall comply with the requirements of Income Tax Authorities as prescribed.

C. Investment Reserve Account (IRA)

105. In the event, provisions created on account of depreciation in the ‘AFS’ or ‘HFT’ categories are found to be in excess of the required amount in any year, the excess shall be credited to the Profit & Loss Account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess provision) shall be appropriated to an IRA Account in Schedule – ‘Reserves & Surplus’ under the head ‘Other Reserves’.

106. IRA shall be eligible for inclusion under Tier 2 within the overall ceiling of 1.25 per cent of total Risk Weighted Assets prescribed for General Provisions / Loss Reserves.

107. The amount drawn down from the IRA shall not be available to the AIFI for payment of dividend.

108. The balance in the IRA transferred 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit & Loss Account is eligible to be reckoned as Tier 1 capital.

109. An AIFI shall have the freedom to utilise IRA as follows:

(1) The provisions required to be created on account of depreciation in the AFS and HFT categories shall be debited to the Profit & Loss Account and an equivalent amount (net of tax benefit, if any, and net of consequent reduction in the transfer to Statutory Reserve), shall be transferred from the IRA to the Profit & Loss Account.

Illustratively, an AIFI shall have the option to draw down from the IRA to the extent of provision made during the year towards depreciation in investment in AFS and HFT categories (net of taxes, if any, and net of transfer to Statutory Reserves as applicable to such excess provision). In other words, an AIFI which pays a tax of 30 per cent and should appropriate 25 per cent of the net profits to Statutory Reserves, can draw down ₹52.50 from the IRA, if the provision made for depreciation in investments included in the AFS and HFT categories is ₹100.

(2) The amounts debited to the Profit & Loss Account for provision shall be debited under the head 'Other Income'.

(3) The amount transferred from the IRA to the Profit & Loss Account, shall be shown as 'below the line' item in the Profit and Loss Appropriation Account, after determining the profit for the year.

(4) Provision towards any erosion in the value of an asset is an item of charge on the Profit and Loss Account, and hence shall appear in that account before arriving at the profit for the accounting period.

(5) An AIFI shall not make the following entries:

i. The provision is allowed to be adjusted directly against an item of Reserves without being shown in the Profit and Loss Account; or

ii. An AIFI is allowed to draw down from the IRA before arriving at the profit for the accounting period (i.e., above the line); or

iii. An AIFI is allowed to make provision for depreciation on investment as a below the line item, after arriving at the profit for the period.

Explanation: Adoption of the above shall not only be adoption of a wrong accounting principle but would also result in a wrong statement of the profit for the accounting period.

D. Non-Performing Investments (NPI)

110. An AIFI shall not reckon income on the securities and shall also make appropriate provisions for the depreciation in the value of the investment in respect of securities included in any of the three categories of investments where interest / principal is in arrears. An AIFI shall not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

111. The criterion used to classify an asset as Non-Performing Asset (NPA) shall be used to classify an investment as Non-Performing Investment (NPI), i.e., an NPI is one where interest / instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.

112. The above shall apply, *mutatis-mutandis*, to preference shares where the fixed dividend is not paid. If the dividend on preference shares (cumulative or non-cumulative) is not declared / paid in any year it shall be treated as due / unpaid in arrears and the date of balance sheet of the issuer for that particular year shall be reckoned as due date for the purpose of asset classification.

113. In the case of equity shares, in the event the investment in the shares of any company is valued at ₹1 per company on account of the non-availability of the latest balance sheet in accordance with paragraph 54 of these Directions, those equity shares shall be reckoned as NPI.

114. If any credit facility availed by the issuer is NPA in the books of the AIFI, investment in any of the securities, including preference shares issued by the same issuer shall also be treated as NPI and vice versa.

Provided that this stipulation shall not be applicable in cases where only the preference shares are classified as NPI, and in such cases, the investment in any of the other performing securities issued by the same issuer need not be classified as NPI and any performing credit facilities granted to that borrower need not be treated as NPA.

115. In case of conversion of principal and / or interest into equity, debentures, bonds, etc., such instruments shall be treated as NPA ab initio in the same asset classification category as the loan, if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision shall be made as per the norms.

116. Government guaranteed investments:

(1) Investment in State Government guaranteed securities, shall attract prudential norms for identification of NPI and provisioning, when interest / instalment of principal (including maturity proceeds) or any other amount due to the AIFI remains unpaid for more than 90 days.

(2) An AIFI’s investments in bonds guaranteed by Central Government shall not be classified as NPI until the Central Government has repudiated the guarantee when invoked. However, this exemption from classification as NPI shall not be available for the purpose of recognition of income.

Chapter XIII: Repeal and Other Provisions

A. Repeal and saving

117. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Classification, Valuation and Operation of Investment Portfolio as applicable to All India Financial Institutions stand repealed, as communicated vide circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025. The instructions and guidelines already repealed shall continue to remain repealed.

118. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

    (1) any right, obligation or liability acquired, accrued, or incurred thereunder;

    (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;

    (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

119. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

120. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Sunil T S Nair)

Chief General Manager

Annex I: Reconciliation Statement

Paragraph 101(9)(iii)

Statement of the Reconciliation of Investments

Proforma Statement showing the position of Reconciliation of Investment Account as at 31st March (30th June in case of National Housing Bank).

Name of the AIFI:

Face value (₹ in crore)

Particulars of securities	General Ledger Balance	SGL Balance	
		As per PDO Books	As per AIFI's books
1	2	3	4
Central Govt			
State Govt			
Public Sector Bonds			
Units of Mutual Funds			
Others (Shares & Debenture etc.)			
TOTAL			

Signature of the Authorised Official with the Name and Designation

Note:

1. Where client / constituent accounts are permitted, an AIFI shall furnish similar statements in respect of constituents' Accounts (including Brokers). In the case of constituents' accounts, the face value and book value of securities appearing in the relevant registers of the AIFI shall be mentioned under Column 2.

2. Details of securities held on physical form (SGL Forms, scrips, letter of allotment, subscription receipt etc.), if any, may be provided in the footnote.

General instructions for compiling reconciliation statement

a) Column - 2 (GL balances)

It is not necessary to give complete details of securities in the format. Only aggregate amount of face value against each category may be mentioned. The corresponding book value of securities may be indicated in bracket under the amount of face value of securities under each category.

b) Column - 3 and 4 (SGL balances)

In the normal course balances indicated against columns three and four shall agree with each other. In case of any difference on account of any transaction not being recorded either in PDO or in the books of the AIFI this shall be explained giving full details of each transaction.