



## **‘Investment Policy’**

### **THE JANATA CO-OPERATIVE BANK LTD.**

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## INVESTMENT POLICY

The Investment Policy in vogue has been reviewed by the Investment Sub-Committee taking into consideration the guidelines/circulars issued by Reserve Bank of India on investments by Primary (Urban) Co-operative Banks (as amended from time to time) and approved by the Board in its meeting held on 26.10.2022 vide Resolution No.A.1(c)(i) as under :

### 1. OBJECTIVE

The objective of this Investment Policy is to provide broad guidelines for management of the investment Portfolio.

The investment operations are conducted with a view to comply with statutory liquidity ratio requirements and to aim at achieving better returns while providing adequate source of liquidity and quality of the portfolio.

The broad objectives of Investment operations are :-

- i) To deploy the surplus funds of the Bank after meeting credit/loan demands, fully and effectively.
- ii) To provide short-term liquidity to meet potential withdrawals of Deposits and/or increase in Loan/Credit Portfolio.
- iii) To maintain maturity pattern of investments consistent with the Bank need for funds and Asset Liability Management needs.
- iv) To ensure optimum utilization of scarce capital to achieve higher scale of business with lower Average risk weightage so that overall bank Capital Adequacy Ratio is improved with higher yield.
- v) In case of other Approved/State Loans/Non SLR securities  
To provide adequate diversification between:-
  - a) Issuing Authorities
  - b) States
  - c) Industries
  - d) Security Types
  - e) Maturity Pattern
- vi) To seek maximum yield within reasonable level of risk in consonance with liquidity management and quality objectives.





## 2. ALLOCATION OF RESOURCES

- The funds to be committed to strategic investments or for other corporate commitments may be allocated/reallocated as per requirements of the Bank from time to time.
- Investment portfolio would thus consist of the following segments :

### Segments

### Resource Allocation

- |     |   |   |
|-----|---|---|
| i)  | Investment in Govt. and approved Securities (For maintaining Statutory Liquidity Ratio) | As per RBI directives from time to time.  |
| ii) | a) Investment in Non-SLR Securities & also excess SLR investments                       | As per need of the Bank from time to time depending upon liquidity, Demand for Credit, Interest rate scenario etc to maximize yield allowed under RBI Directives. |
|     | b) Strategic and other investments  | As per requirements of the Bank allowed under RBI Directives.   |

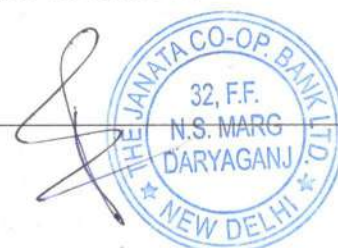
## 3. RESTRICTIONS ON HOLDING SHARES IN OTHER CO-OPERATIVE SOCIETIES

Section 19 of the Banking Regulation Act, 1949 (AACS)) stipulates that no co-operative bank shall hold shares in any other co-operative society except to such extent and subject to such conditions as the Reserve Bank of India may specify in that behalf. However, nothing contained in the section applies to -

- a) in the case of a primary (urban) co-operative bank (UCB), holding of shares in the central co-operative bank to which it is affiliated or in the state co-operative bank of the state in which it is registered and such holding shall not exceed 2% of its own capital and reserves..

## 4. CASH RESERVE RATIO

In terms of Section 18 of B.R.Act. 1949 (AACS) the bank is required to maintain CRR at the close of the business at any day should not be less than 4.50% of its Net demand and time liabilities (NDTL) in India as on the last Friday of the second preceding fortnight beginning May 21, 2022 in cash with itself or in current account (Net balance) opened with the Reserve Bank or State Bank of India or State Co-operative Bank of the state concerned or Nationalised bank and shall submit in prescribed form, a return to Reserve bank of India on or before the 15th of the subsequent month.



## 5. STATUTORY (SLR) INVESTMENTS

In terms of provisions of section 24 of the BR Act 1949, (AACS), bank is required to maintain liquid assets which at the close of business on any day should not be less than 18% w.e.f. 11.04.2020 vide RBI Circular No.DOR No.RET.REC.32/12.01.001/2021-22 dated July 20, 2021 amended as on 06.04.2022 but not exceeding 40% of its Net demand and time liabilities in India as on the last Friday of the second preceding fortnight. SLR Investment shall include

- (a) Surplus Cash, and balance in Current Accounts as required u/s 18 of B.R. Act 1949 (AACS)
- (b) Gold as defined in Section 5(g) of the Banking Regulation Act, 1949 (AACS) (10 of 1949) valued at a price not exceeding the current market price: or
- (c) Unencumbered investment in approved securities as defined in section 5(a) of the Banking Regulation Act, 1949 (10 of 1949) read with section 56 there of:

**Provided that** the instruments that have been acquired from Reserve Bank of India under reverse repo, shall be considered as eligible assets for SLR maintenance.

**Provided further that** the following securities shall not be treated as encumbered for the purpose of maintenance of SLR assets, namely

- (a) securities lodged with another institution for an advance or any other credit arrangement to the extent to which such securities have not been drawn against or availed of;
- (b) securities offered as collateral to the Reserve Bank for availing liquidity assistance under MSF up to the permissible percentage of the total NDTL in India, carved out of the required SLR portfolio of the bank concerned.

**Explanation- For the purpose of these Directions,**

- (a) i) Securities lodged in the Gilt Account of the bank maintained with Clearing Corporation of India Ltd. (CCIL) under Constituent Subsidiary General Ledger account (CSGL) facilities remaining unencumbered at the end of any day can be reckoned for SLR purposes by the bank concerned.
- ii) Funds borrowed under repo including tri-party repo in government securities shall be exempted from CRR/SLR computation and the security acquired under repo shall be eligible for SLR provided the security is primarily eligible for SLR as per the provisions of the Act under which it is required to be maintained.





- iii) Borrowings by a bank through repo in corporate bonds and debentures shall be reckoned as liabilities for Cash Reserve Ratio/ Statutory Liquidity Ratio requirement and, to the extent these liabilities are to the banking system, they shall be netted as per Section 42 (1) (d) of the RBI Act, 1934.
- (b) Bank shall maintain investments in Government Securities only in Subsidiary General Ledger (SGL) Accounts with Reserve Bank or in CSGL Accounts of scheduled commercial banks, Primary Dealers (PDs), State Co-operative Banks, and Stock Holding Corporation of India Ltd.(SHCIL) or in the dematerialised accounts with depositories such as National Securities Depositories Ltd (NSDL), Central Depository Services Ltd. (CDSL), and National Securities Clearing Corporation Ltd. (NSCCL).

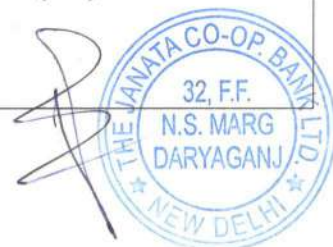
**Note:**

1. With a view to disseminating information on the SLR status of a Government security, it has been decided that:
  - i) the SLR status of securities issued by the Government of India and the State Governments will be indicated in the Press Release issued by the Reserve Bank of India at the time of issuance of the securities; and,
  - ii) an updated and current list of the SLR securities will be posted on the Reserve Bank's website ([www.rbi.org.in](http://www.rbi.org.in)) under the link "Database on Indian Economy" under the head 'Statistics'.
2. The cash management bill shall be treated as Government of India Treasury Bill and thus be reckoned as SLR security.

**6. MARGINAL STANDING FACILITY (MSF)**

Banks permitted by Reserve Bank shall have the option to participate in the Marginal Standing Facility (MSF) Scheme introduced by the Reserve Bank. The features of the scheme are given in ensuing paragraphs:

- (i) The eligible banks shall have the option to borrow up to three per cent of their respective NDTL outstanding at the end of the second preceding fortnight.
- (ii) The eligible entities shall also continue to access overnight funds under this facility against their excess SLR holdings.
- (iii) In the event of banks' SLR holding falling below the statutory requirement up to three per cent of their NDTL, banks shall not have the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility in terms of notification issued under sub section (2A) of Section 24 of the Banking Regulation Act, 1949.



## 7. Returns in Form VIII/Form I (CRR) & (SLR)

- a) The bank, shall submit a Return in Form I together with Appendix I, to the regional office concerned of the Reserve Bank, not later than 20 days after the end of the month to which it relates showing the position, *inter alia*, of cash reserves maintained by the bank under Section 18 of the B.R. Act, 1949 read with Section 56, *ibid*, as at the close of business on each alternate Friday during the month. Where such alternate Friday is a public holiday under Negotiable Instruments Act, 1881 for one or more offices of the bank, the Return shall give the preceding day's figure in respect of such office or offices, but shall nevertheless be deemed to relate to that Friday.
- b) (i) The Bank is required to submit a Return in Form I under Section 24 of the BR Act, 1949 (AACS) every month showing the position of liquid assets maintained under the said Section as at the close of business on each alternate Friday during the month not later than twenty days after the end of the month to which it relates.
- (ii) The bank is required to furnish Appendix II, as per proforma given in Annex 7, together with the Return in Form I showing the position of -
- (a) statutory liquid assets required to be maintained under Section 24 of the BR Act, 1949 (AACS).
  - (b) liquid assets actually maintained, and
  - (c) the extent of deficit/surplus for each day of the month.
- (iii) The Bank should furnish the information w.r.t. valuation of securities for SLR, format for which is given in Annex 6. Information in the format may be furnished as an Annex, to return in Form I, only to the Regional Office concerned of Department of Supervision. The monthly Return should contain information of the fortnights following in the respective months.
- c) **Correctness of computation of NDTL to be certified by Statutory Auditors**

The Statutory Auditors shall verify and certify that all items of outside liabilities, as per the bank's books had been duly compiled by the bank and correctly reflected under NDTL in the fortnightly/monthly statutory returns submitted to Reserve Bank for the financial year.





**d) Register for daily position of liquidity**

- (i) The banks shall maintain a register, as per format given in Annex VIII, showing the daily position of cash reserve and liquid assets maintained under Sections 18 and 24 of the Banking regulation Act, 1949 read with Section 56 there of which shall be put up daily to Chief Executive Officer/Managing Director, who is responsible for ensuring compliance with the statutory liquidity requirements at the close of business every day.

**8. DELEGATION OF AUTHORITY**

The investment upto Rs.1.00 crore (Rupees One Crore only) in Govt. and other approved securities may be undertaken jointly by the Managing Director/CEO and any other two authorized officials/signatories of the Bank subject to post facto approval of the Board of Directors and above Rs.1.00 crore be undertaken jointly by the Managing Director/CEO and any other two officials/signatories of the Bank, with the approval of Chairman/Vice Chairman, Investment Sub-Committee subject to final post facto approval of the Board./BOM.

**9. QUANTITY & QUALITY OF INVESTMENTS**

- 9.1 The bank shall invest in Govt. Securities and State Government loan under the authority delegated in terms of para 8 of the policy.
- 9.2 Placement of Deposits with other Banks i.e. Public Sector Banks/ Scheduled private sector Banks and the State Cooperative Bank in Term Deposits, Certificate of Deposits, Current Deposits and/or any other Deposit Account, including Call Money as per prudential inter bank exposure limit and prudential inter bank counter party limit fixed by the Reserve Bank of India from time to time shall be undertaken jointly by Chief Executive Officer/MD with any of the two authorized officials/signatories of the Bank subject to prior or post facto approval of the Board. All the transactions shall be clearly recorded indicating full details and shall be put before the Investment Sub-Committee/ Audit Sub-Committee for periodic review of investment transactions and shall also be placed before the BOM/BOD for information.
- 9.3 For every transaction entered into, a deal slip should be prepared which should contain details relating to name of the counter-party. For each deal, there must be a system of issue of confirmation to the counter party.
- 9.4 The Deal Slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for.
- 9.5 On the basis of vouchers passed after verification of actual contract notes received from the counter-party and confirmation of the deal by the counter-party the bank should independently write the books of accounts.





- 9.6 The Internal Audit Department/Concurrent Auditors shall audit the transactions in securities on an ongoing basis and monitor compliance with the laid down management policies and prescribed procedures and report the deficiencies directly to the management of the bank.

## 10. GENERAL GUIDELINES

- 10.1 Bank should not undertake any purchase/sale transactions with broking firms or other intermediaries on principal-to-principal basis.
- 10.2 Bank should not hold an oversold position in any security except for those banks which are eligible to undertake short sale position in Government securities as prescribed in paragraph 10 of Master Circular No.DOR.MRG.REC.10/21.04.141/2022-23 April 01, 2022. However, scheduled UCBs may sell a Government Security already contracted for purchase, provided:
- 10.2.1 the purchase contract is confirmed prior to the sale,
- 10.2.2 the purchase contract is guaranteed by Clearing Corporation of India Ltd. (CCIL) or the security is contracted for purchase from the Reserve Bank and,
- 10.2.3 the sale transaction will settle either in the same settlement cycle as the preceding purchase contract, or in a subsequent settlement cycle so that the delivery obligation under the sale contract is met by the securities acquired under the purchase contract (e.g. when a security is purchased on T+0 basis, it can be sold on either T+0 or T+1 basis on the day of the purchase; if however it is purchased on T+1 basis, it can be sold on T+1 basis on the day of purchase or on T+0 or T+1 basis on the next day). Sale of Government Securities allotted to successful bidders in primary issues on the day of allotment, with and between CSGIL constituent account holders is permitted.
- 10.3 For purchase of securities from the Reserve Bank through Open Market Operations (OMO), no sale transactions should be contracted prior to receiving the confirmation of the deal/advice of allotment from the Reserve Bank.
- 10.4 Bank shall exercise abundant caution to ensure adherence to these guidelines. The concurrent auditors should specifically verify the compliance with these instructions. The concurrent audit reports should contain specific observations on the compliance with the above instructions and should be incorporated in the monthly report to the Chairman/Managing Director/Chief Executive Officer of the bank and the half yearly review to be placed before the



Board of Directors. CCIL will make available to all market participants as part of its daily reports, the time stamp of all transactions as received from NDS-OM. The mid office/back office and the auditors may use this information to supplement their checks/scrutiny of transactions for compliance with the instructions. Any violation noticed in this regard should immediately be reported to the concerned Regional Office of Department of Supervision, Reserve Bank of India. Any violation noticed in this regard would attract penalties as currently applicable to the bouncing of SGL even if the deal has been settled because of the netting benefit under DVP III, besides attracting further regulatory action as deemed necessary.

10.5 Bank successful in the auction of primary issue of Government Securities, may enter into contracts for sale of the allotted securities in accordance with the terms and conditions as indicated below:

10.5.1 The contract for sale can be entered into only once by the allottee bank, on the basis of an authenticated allotment advice issued by Reserve Bank. The selling bank should make suitable noting/stamping on the allotment advice indicating the sale contract number etc., the details of which should be intimated to the buying entity. Any sale of securities should be only on a T+0 or T+1 settlement basis.

10.5.2 The contract for sale of allotted securities can be entered into by banks only with entities maintaining SGL Account with Reserve Bank for delivery and settlement on the next working day through the DVP system.

10.5.3 The face value of securities sold should not exceed the face value of securities indicated in the allotment advice.

10.5.4 The sale deal should be entered into directly without the involvement of broker/s.

10.5.5 Separate record of such sale deals should be maintained containing details such as number and date of allotment advice, description and the face value of securities allotted, the purchase consideration, the number, date of delivery and face value of securities sold, sale consideration, the date and details of actual delivery etc. This record should be made available to Reserve Bank for verification. Banks should immediately report any cases of failure to maintain such records.





- 10.5.6 Such type of sale transactions of Government Securities allotted in the auctions for primary issues on the same day and based on authenticated allotment advice should be subjected to concurrent audit and the relative audit report should be placed before the Board of Directors of the bank once every month. A copy thereof should also be sent to the concerned Regional Office of Department of Supervision, RBI.

Banks will be solely responsible for any failure of the contracts due to the securities not being credited to their SGL account on account of non-payment etc.

- 10.6 While undertaking OTC transactions in Government securities, banks should seek a scheduled commercial bank, a Primary Dealer (PD), a financial institution, another UCB, insurance company, mutual fund or provident fund, as a counterparty for their transactions. Preference should be given to direct deals with such counter parties. It will be desirable to check prices from other banks or PDs with whom the UCB may be maintaining Gilt account. The prices of all trades done in Government Securities, including those traded through NDS-OM, are also available at Reserve Bank's website ([www.rbi.org.in](http://www.rbi.org.in)).

- 10.7 Bank may take advantage of the non-competitive bidding facility in the auction of Government of India dated securities, provided by the Reserve Bank. Under this scheme, banks may bid upto ₹2 crore (face value) in any auction of Government of India dated securities, either directly, through a bank or through a PD. Bank may also participate directly or through a bank or a PD in the competitive and non-competitive auctions of State Development Loans (SDLs) conducted by the Reserve Bank.

Participation in non-competitive auction of SDLs will be as per guidelines prescribed in the Scheme of Non-Competitive Bidding in the Auction of SDLs issued vide circular IDMD.No.954/08.03.001/2009-10 dated August 24, 2009, as amended from time to time. An advertisement in leading newspapers is issued 4-5 days in advance of the date of auction. Half yearly auction calendar of Government of India securities is also issued by the Reserve Bank.

- 10.8 Gilt Accounts, if opened, should be used for holding the securities and such accounts should be maintained in the same bank with whom the cash account is maintained.



- 10.9 In case Gilt account is opened with any of the eligible on-banking institutions, the particulars of the designated funds account (with a bank) should be intimated to that institution.
- 10.10 All transactions must be monitored to see that delivery takes place on settlement day. The fund account and investment account should be reconciled on the same day before close of business.
- 10.11 Officials deciding about purchase and sale transactions should be separated from those responsible for settlement and accounting.
- 10.12 All investment transactions should be perused by the BOM/BOD at least once a month.
- 10.13 When the bank has been specifically permitted to tender physical SGL transfer forms, it should keep a proper record of the SGL forms received / issued to facilitate counter-checking by their internal control systems/Inspecting Officers of Reserve Bank/other auditors.
- 10.14 All purchase/sale transactions in Government Securities by the banks should necessarily be through CSGL account (with HDFC Bank).
- 10.15 No transactions in Government Securities by a UCB should be undertaken in physical form with any broker.
- 10.16 The entities maintaining the CSGL accounts are required to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sale transactions.
- 10.17 The security dealings of banks generally being for large values, it may be necessary to ensure, before concluding the deal, the ability of the counterparty to fulfill the contract, particularly where the counter party is not a bank.
- 10.18 While buying securities for SLR purpose, the bank should ensure that the security it intends to purchase has an SLR status. The SLR status of securities issued by the Government of India and the State Governments will be indicated in the Press Release issued by the Reserve Bank at the time of issuance of the securities. An updated and current list of the SLR securities will be posted on the Reserve Bank's website (<https://dbie.rbi.org.in>) under the link "Database on Indian Economy-Statistics-Financial Market-Government Securities Market."
- 10.19 In order to avoid concentration of risk, the banks should have a fairly diversified investment portfolio. Smaller investment portfolios should preferably be restricted to securities with high safety and liquidity such as Government Securities.





- 10.20 Bank may seek the guidance of Primary Dealers' Association of India (PDAI)/Fixed Income and Money Market Dealers' Association (FIMMDA) on investment in Government Securities.

## 11. TRANSACTIONS THROUGH CSGL ACCOUNTS

### 11.1 CSGL Account

- 11.1.1 The bank is maintaining CSGL Account with HDFC Bank, Kasturba Gandhi Marg, New Delhi. All transactions in Government Securities for which CSGL facilities available should be put through CSGL accounts only.
- 11.1.2 Before issue of CSGL transfer forms covering the sale transactions, bank should ensure that they have sufficient balance in the respective CSGL accounts. Under no circumstances, should an CSGL transfer form issued by a bank in favour of another bank, bounce for want of sufficient balance in the CSGL account. The purchasing bank should issue the cheques (or make payment by other eligible mode) only after receipt of the CSGL transfer forms from the selling bank.
- 11.1.3. In the event of bouncing of SGL transfer forms and the failure of the account holder concerned to offer satisfactory explanation for such bouncing, the Bank shall be liable to pay penalties as under:
- i. Graded monetary penalties subject to a maximum penalty of Rs.5 lakhs per instance:

Sl. No.	Applicable to	Monetary penalty	Illustration [Penal amount on ₹5 crore default]
1	First three defaults in a financial year (April to March)	0.10 per cent (10 paise per ₹100 FV)	₹50,000/-
2	Next three defaults in the same financial year	0.25 per cent (25 paise per ₹100 FV)	₹1,25,000/-
3	Next three defaults in the same financial year	0.50 per cent (50 paise per ₹100 FV)	₹2,50,000/-



- ii. On the tenth default in a financial year, the bank will be debarred from using the SGL/CSGL A/c for undertaking short sales in Government securities even to the extent permissible under circular IDMD.No/11.01.01(B)/ 2006-07 dated January 31, 2007 as amended from time to time, during the remaining portion of the financial year. In the next financial year, upon being satisfied that the Bank in question has made improvements in its internal control systems, RBI may grant specific approval for undertaking short sales by using the SGL/CSGL A/c facility.
  - iii. The monetary penalty may be paid by the Bank concerned by way of a cheque or through electronic mode for the amount favoring the Reserve Bank of India, within five working days of receipt of intimation of order imposing penalty from RBI.
- 11.1.4 For the purpose of instructions given in paragraph 11.1.2, 'SGL/CSGL bouncing' shall mean failure of settlement of a Government securities transaction on account of insufficiency of funds in the current account of the buyer or insufficiency of securities in the SGL / CSGL account of the seller, maintained with the Reserve Bank of India.
- 11.1.5 The defaulting Bank shall make appropriate disclosure, on the number of instances of default as well as the quantum of penalty paid to the Reserve Bank during the financial year, under the "Notes to Account" in its balance sheet.
- 11.1.6 Notwithstanding anything contained in paragraphs 11.1.2 to 11.1.4, the Reserve Bank reserves the right to take any action including temporary or permanent debarment of the SGL/CSGL account holder, in accordance with the powers conferred under the Government Securities Act, 2006 as it may deem fit, for violation of the terms and conditions of the opening and maintenance of SGL/CSGL accounts or breach of the operational guidelines issued from time to time.

## 12. SGL/CSGL Forms

- 12.1.1 The SGL/CSGL transfer forms should be in the standard format prescribed by the Reserve Bank and printed on semi-security paper of uniform size. These should be serially numbered and there should be a control system in place to account for each SGL form.
- 12.1.2 SGL/CSGL transfer forms should be signed by two authorised officials of the bank whose signatures should be recorded with the respective PDO of Reserve Bank and other banks.





- 12.1.3 The SGL/CSGL transfer form received by the purchasing bank should be deposited in its SGL account immediately. No sale should be affected by way of return of SGL transfer form held by the bank.
- 12.1.4 Any bouncing of SGL/CSGL transfer forms issued by selling bank in favour of the buying bank should immediately be brought to the notice of the Reserve Bank by the buying bank.

### **13. Control, Violation and Penalty Provisions**

- 13.1.1 Record of CSGL transfer forms issued/received should be maintained. Balances as per the bank books in respect of CSGL accounts should be reconciled with the balances in the books of HDFC Bank. The statement of Balance of CSGL Account can be obtained from the HDFC Bank on monthly basis for reconciliation of its CSGL balances as per its books and the position in this regard should be placed before the Audit Committee of the Board. This reconciliation should also be periodically checked by the internal audit department. A system for verification of the authenticity of the CSGL transfer forms received from other banks and confirmation of authorised signatories should be put in place.
- 13.1.2 Bank should also forward a quarterly certificate indicating that the balances held in the CSGL accounts with the HDFC Bank have been reconciled and that it has been placed before the Audit Committee of the Board. A copy thereof should be sent to the Regional Office concerned of the Department of Supervision, Reserve Bank of India.
- 13.1.3 Bank should put in place a system to report to the Top Management on a monthly basis the details of transactions in securities, details of bouncing of CSGL transfer forms issued by other banks and review of investment transactions undertaken during the period.
- 13.1.4 All promissory notes, debentures, shares, bonds, etc. should be properly recorded and held under joint custody. A separate register may be maintained to record the particulars of securities taken out/re-lodged. These should be subjected to periodical verification, say once in a quarter or half-year, by persons unconnected with their custody.
- 13.1.5 Certificates should be obtained at quarterly/half-yearly intervals in respect of securities lodged with other institutions. Similarly, it is necessary to reconcile the outstanding Bank Receipts with the counter-party at monthly intervals and reconciliation of CSGL Account balance with the HDFC Bank at monthly intervals.
- 13.1.6 The internal inspectors and concurrent auditors should peruse the transactions to ensure that the deals have been undertaken in the best interest of the bank. The Vigilance Cell should also make surprise sample checks of large transactions.



13.1.7 The concurrent auditors should certify that investments held by the bank, as on the last reporting Friday of each quarter and as reported to Reserve Bank, are actually owned/held by it as evidenced by the physical securities or the out-standings statement. Such a certificate should be submitted to the Regional Office of Department of Cooperative Banks Supervision having jurisdiction over the bank, within 30 days from the end of the relative quarter.

## **14. ENGAGEMENT OF BROKERS**

### **14.1 Dealing through Brokers**

14.1.1 The inter-bank securities transactions should be undertaken directly between banks through Primary Dealers such as SBI DFHI, STCI, PNB GUILT etc.

## **15 NON - SLR INVESTMENTS**

In order to contain risks arising out of the non-SLR investment portfolio of banks, the banks should adhere to the following guidelines:

### **15.1.1 Instruments**

The bank may invest in the following instruments:

- (a) "A" or equivalent and higher rated Commercial Papers (CPs), debentures and bonds.
- (b) Units of Debt Mutual Funds and Money Market Mutual Funds.
- (c) Shares of Market Infrastructure Companies (MICs).

### **15.1.2 Prudential Limit**

- a) The Non-SLR investments shall be limited to 10% of a bank's total deposits as on March 31 of the previous year subject to maximum Exposure fixed by the Board from time to time for single party and group of connected parties i.e. Rs.210.00 Lakh & Rs.350.00 Lakh respectively. The investment made for subscribing to the capital of the Umbrella Organization (UO), for acquiring its membership shall be exempted from the limits prescribed in para 2(i) and 2(iii) of the Circular No.UBD.(PCB).BPD.Cir.No.46/16.20.000/2008-09 dated January 30, 2009.
- (b) Investment in unlisted securities shall be subject to a minimum rating prescribed at 15.1.1 (a) above and shall not exceed 10 per cent of the total non-SLR investments at any time.

### **15.1.3 Restrictions**

- (a) Investment in perpetual debt instruments is not permitted.
- (b) In terms of UBD.(PCB).BPD.Cir.No.14/16.20.000/2007-08 dated September 18, 2007, where banks have already exceeded the limit for investment in unlisted securities, no further investment in such securities will be permitted. Since there is a time lag between issuance





and listing of securities, which are proposed to be listed but not listed at the time of subscription, banks may not be able to participate in primary issues of non-SLR securities. In view of this, investments in non-SLR debt securities (both primary and secondary market) by banks where the security is proposed to be listed in the Exchange(s) may be considered as investment in listed security at the time of making investment. However, if such security is not listed within the period specified, the same will be reckoned for the 10 per cent limit specified for unlisted non-SLR securities. In case such investments included under unlisted non-SLR securities lead to a breach of 10 per cent limit, the bank would not be allowed to make further investments in non-SLR securities (both primary and secondary market) till such time its investment in unlisted securities comes within the limit of 10 per cent.

- (c) Investment in deep discount / zero coupon bonds should be subject to the minimum rating as stated above and comparable market yields for the residual duration. However, bank is not permitted to invest in Zero Coupon Bonds from February 18, 2011 as advised vide circular No. UCB(PCB)BPD.Cir.No.36/16.20.000/2010-11 dated February 18, 2011 unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).
- (d) Investment in units of Mutual Funds, other than units of Debt Mutual Funds and Money Market Mutual Funds, are not permitted. The existing holding in units of Mutual Funds other than Debt Mutual Funds and Money Market Mutual Funds, including those in UTI should be disinvested. Till such time that they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at 15.1.1 above. The banks should, however, review risk management policy in place that ensures that they do not have disproportionate exposure in any one scheme of a Mutual Fund.
- (e) Non-SLR investment, other than in units of Debt Mutual Funds and Money Market Mutual Funds, and CPs, shall be in instruments with an original maturity of over one year.
- (f) Fresh investments in shares of All India Financial Institutions (AIFIs) will not be permitted.
- (g) All fresh investments under Non-SLR category should be classified under Held for Trading (HFT) / Available for Sale (AFS) categories only and marked to market as applicable to these categories of investments. However, investments in the long term bonds issued by companies engaged in executing infrastructure projects and having a minimum residual maturity of seven years may be classified under Held to Maturity (HTM) category



- (h) All Non-SLR investments will be subject to the prescribed prudential single/group counter party exposure limits fixed by the Board from time to time.
- i) All transactions for acquisition / sale of non-SLR investments in secondary market may be undertaken with mutual funds, pension / provident funds and insurance companies, in addition to undertaking transactions with commercial banks and primary dealers, subject to adherence to the instructions contained in Para 7 of RBI Master Direction FMRD.DIRD.2/14.01.002/2017-18 dated August 10, 2017.

#### **15.1.4. Review of Non-SLR Investments**

The Board should review the following aspects of Non-SLR investment at least at half-yearly intervals:

- (a) Total business (investment and divestment) during the reporting period.
- (b) Compliance with prudential limits prescribed for Non-SLR investment.
- (c) Compliance with the prudential guidelines issued by Reserve Bank on Non-SLR securities.
- (d) Rating migration of the issuers/issues held in the bank's books and consequent diminution in the portfolio quality.
- (e) Extent of non-performing investments in the Non-SLR category and sufficient provision thereof.

#### **15.1.5. Disclosure**

The bank should disclose the details of the issuer-wise composition of Non-SLR investments and the non-performing investments in the 'Notes on Accounts' of the balance sheet.

### **15.2 Placement of deposits with other banks by Bank**

#### **15.2.1 Prudential inter-bank (gross) exposure limit**

The total amount of deposits placed by the bank with other banks (inter-bank) for all purposes including call money/ notice money, and deposits, if any, placed for availing clearing facility, CSGI facility, currency chest facility, remittance facility and non-fund based facilities like Bank Guarantee, Letter of Credit, etc. shall not exceed 20 per cent of its total deposit liabilities as on March 31 of the previous year. The balances held in deposit accounts with commercial banks (including scheduled Small Finance Banks), scheduled UCBs, State Cooperative Banks, District Central Cooperative Banks and investments in Certificate of Deposits issued by commercial banks, being inter bank exposures, will be included in this 20 per cent limit.





### **15.2.2 Prudential inter-bank counter party limit**

Within the prudential inter-bank (gross) exposure limit, deposits with any single bank should not exceed 5 per cent of the depositing bank's total deposit liabilities as on March 31 of the previous year. ~

## **16 INTERNAL CONTROL AND INVESTMENT ACCOUNTING**

### **16.1 Internal Control**

- 16.1.1 For every transaction entered into, a deal slip should be prepared which should contain details relating to name of the counter-party, whether it is direct deal or through a broker, and if through a broker, details of security, amount, price, contract date and time. For each deal, there must be a system of issue of confirmation to the counterparty.
- 16.1.2 The Deal Slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for.
- 16.1.3 On the basis of vouchers passed after verification of actual contract notes received from the broker/counter-party and confirmation of the deal by the counter-party the bank should independently write the books of accounts.
- 16.1.4 A record of broker-wise details of deals put through and brokerage paid should be maintained.
- 16.1.5 The Internal Audit Department should audit the transactions in securities on an ongoing basis and monitor compliance with the laid down management policies and prescribed procedures and report the deficiencies directly to the management of the bank.

### **16.2 Investment Accounting**

#### **16.2.1 Accounting Standards**

In order to bring about uniform accounting practice among banks in booking of income on units of mutual funds (debt mutual funds and money market mutual fund) and equity of AIFIs, as a prudent practice, such income should be booked on cash basis and not on accrual basis. However, in respect of income from Government Securities/bonds of public sector undertakings and AIFIs, where interest rates on the instruments are predetermined, income may be booked on accrual basis, provided interest is serviced regularly and is not in arrears.

#### **16.2.2 Broken Period Interest - Government and Other Approved Securities**

- 16.2.2.1 With a view to bringing about uniformity in the accounting treatment of broken period interest on Government Securities paid at the time of acquisition and to comply with the Accounting Standards prescribed by the Institute of Chartered Accountants of India, the banks should not capitalise the broken period interest paid to seller as part of cost, but treat it as an item of expenditure under Profit & Loss Account.



16.2.2.2 The above accounting treatment does not take into account taxation implications and hence the bank should comply with the requirements of income tax authorities in the manner prescribed by them.

**16.2.2.3 Accounting Procedure for investments in Government Securities – Settlement Date Accounting**

With a view to bringing in uniformity in the practice adopted by bank while accounting for investments in Government Securities, it has been decided that banks should follow "Settlement Date" accounting for recording both outright and ready forward purchase and sale transactions in Government Securities.

**17. Concurrent Audit**

17.1 In view of the possibility of abuse, treasury functions viz. investments, funds management including inter-bank borrowings, bills rediscounting, etc. should be subjected to concurrent audit and the results of audit should be placed before the Chairman and Managing Director of the bank at prescribed intervals.

17.2 It is the primary responsibility of the bank to ensure that there are adequate audit procedures for ensuring proper compliance of the instructions in regard to the conduct of investment portfolio.

17.3 The concurrent audit should cover the following aspects:

- (i) Ensure that in respect of purchase and sale of securities the concerned department has acted within its delegated powers.
- (ii) Ensure that the securities other than those in SGL and in de-mat form, as shown in the books, are physically held.
- (iii) Ensure that the Accounting Unit is complying with the guidelines regarding BRs, SGL/CSGL forms, delivery of scrips, documentation and accounting.
- (iv) Ensure that the sale or purchase transactions are done at rates beneficial to the bank.
- (v) Scrutinise conformity with broker limits and include excesses observed in their periodical reports.

**18. Internal Audit**

18.1 Purchase and sale of Government Securities etc. should be separately subjected to audit by internal auditors and the results of their audit should be placed before the Board of Directors once in every quarter.





## **18.2 Review**

Bank should undertake a half-yearly review (as of March 31 and September 30) of their investment portfolio, which should, apart from other operational aspects of investment portfolio, clearly indicate and certify adherence to the laid down internal investment policy and procedures and Reserve Bank's guidelines, and put up the same before the Board within a month. Such review reports should be forwarded to Regional Office of Department of Cooperative Banks Supervision by May 15/November 15 respectively.

## **18.3 Penalties for Violation**

Bank should scrupulously follow the above instructions. Any violation of these instructions will invite penal action against defaulting bank which could include raising of reserve requirements, withdrawal of refinance from the Reserve Bank, denial of access to money markets, denial of new branches/extension counters and advising the President of Clearing House to take appropriate action including suspension of membership of the Clearing House.

## **19. Categorisation of Investments**

**19.1** Bank is required to classify their entire investment portfolio (including SLR and Non-SLR securities) under three categories viz. –

- (i) Held to Maturity (HTM)
- (ii) Available for Sale (AFS)
- (iii) Held for Trading (HFT)

Bank should decide the category of the investment at the time of acquisition and the decision should be recorded on the investment proposals. However, all fresh investments under Non-SLR category should be classified under HFT / AFS categories only and marked to market as applicable to these categories of investments. However, investments in the long term bonds issued by companies engaged in executing infrastructure projects and having a minimum residual maturity of seven years may be classified under HTM category.

### **19.2 Held to Maturity**

**19.2.1** Securities acquired by the banks with the intention to hold them up to maturity shall be classified under HTM category.

**19.2.2** The investments included under HTM category should not exceed 25 per cent of the bank's total investments. However, bank is permitted to exceed the limit of 25 per cent of the total investments under HTM category provided,



- (a) the excess comprises only of SLR securities
- (b) the total SLR securities held in the HTM category is not more than 25 per cent of NDTL as on the last Friday of the second preceding fortnight.

19.2.3 Bank is not expected to resort to sale of securities held in HTM category. However, if due to liquidity stress, Bank is required to sell securities from HTM portfolio, they may do so with the permission of their Board of Directors and rationale for such sale may be clearly recorded. Profit on sale of investments from HTM category shall first be taken to the Profit and Loss account and, thereafter, the amount of such profit shall be appropriated to 'Capital Reserve' from the net profit for the year after statutory appropriations. Loss on sale shall be recognized in the Profit and Loss account in the year of sale

### **19.3 Held for Trading**

19.3.1 Securities acquired by the bank with the intention to trade by taking advantage of the short-term price/interest rate movements will be classified under HFT category.

19.3.2 If bank is not able to sell the security within 90 days due to exceptional circumstances such as tight liquidity conditions, or extreme volatility, or market becoming unidirectional, the security should be shifted to the AFS category, subject to conditions stipulated in paragraphs 19.5.3 and 19.5.4 below.

### **19.4 Available for Sale**

19.4.1 Securities which do not fall within the above two categories will be classified under AFS category.

19.4.2 Bank have the freedom to decide on the extent of holdings under AFS category. This may be decided by them considering various aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, capital position, etc.

(Profit or loss on sale of investments in HFT & AFS categories should be taken to Profit and Loss Account).

### **19.5 Shifting of investments**

19.5.1 Bank may shift investments to/from HTM category with the approval of the Board of Directors once in a year. Such shifting will normally be allowed at the beginning of the accounting year. No further shifting to/from this category will be allowed during the remaining part of that accounting year.





- 19.5.2 Bank may shift investments from AFS category to HFT category with the approval of their Board of Directors. In case of exigencies, such shifting may be done with the approval of the Chief Executive of the Bank, but should be ratified by the Board of Directors.
- 19.5.3 Shifting of investments from HFT category to AFS category is generally not allowed. However, it will be permitted only under exceptional circumstances such as mentioned in paragraph 15.3.2 above, subject to depreciation, if any, applicable on the date of transfer, with the approval of the Board of Directors/Investment Committee.
- 19.5.4 Transfer of scrips from one category to another, under all circumstances, should be done at the acquisition cost/book value/market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer should be fully provided for.

## **19.6 Classification of Investments in the Balance Sheet**

For the purpose of Balance Sheet, the investments should continue to be classified in the following categories :

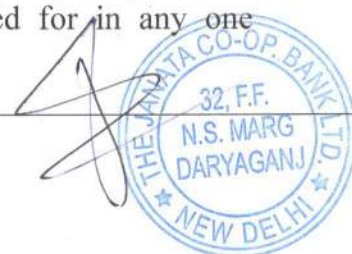
- (i) Government securities
- (ii) Other approved securities
- (iii) Shares
- (iv) Bonds of PSU
- (v) Others

## **20 Valuation of investments**

### **20.1 Valuation Standards**

- 20.1.1 Investments classified under HTM category need not be marked to market and will be carried at acquisition cost unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity.
- 20.1.2 The individual scrip in the AFS category will be marked to market at the year-end or at more frequent intervals. The book value of the individual securities would not undergo any change after the revaluation.
- 20.1.3 The individual scrip in the HFT category will be marked to market at monthly or at more frequent intervals. The book value of individual securities in this category would not undergo any change after marking to market.

Note : Securities under AFS and HFT categories shall be valued scrip-wise and depreciation/appreciation shall be aggregated for each classification as indicated at paragraph 19.6 above separately for AFS and HFT. Net depreciation, if any, shall be provided for. Net appreciation, if any, should be ignored. Net depreciation required to be provided for in any one



classification should not be reduced on account of net appreciation in any other classification. Similarly net depreciation for any classification in one category should not be reduced from appreciation in similar classification in another category.

20.1.4 (i) Investment Depreciation Reserve required to be created on account of depreciation in the value of investments held under 'AFS' or 'HFT' categories in any year should 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) or the balance available in the IFR Account, whichever is less, shall be transferred from the IFR Account to Profit & Loss Account.

(ii) In the event that IDR created on account of depreciation in investments is found to be in excess of the required amount in any year, the excess should 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) should be appropriated to the IFR Account to be utilised to meet future depreciation requirement for investments.

(iii) The amounts debited to the Profit & Loss Account for depreciation provision and the amount credited to the Profit & Loss Account for reversal of excess provision should be debited and credited respectively under the head "Expenditure - Provisions & Contingencies".

(iv) The amounts appropriated from the Profit & Loss Account/ to IFR and the amount transferred from the IFR to the Profit & Loss Account should be shown as 'below the line' items after determining the profit for the year.

20.1.5 In respect of securities included in any of the three categories where interest/principal is in arrears, the bank should not reckon income on the securities and should also make appropriate provisions for the depreciation in the value of the investment. The bank should not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

## **20.2 Market Value**

### **Quoted Securities**

20.2.1 The 'market value' for the purpose of periodical valuation of investments included in the AFS and the HFT categories would be the market price of the scrip as available from the trades/quotes on the stock exchanges, SGL account transactions, price list of Reserve Bank, prices declared by PDAI jointly with FIMMMDA.





### 20.2.2 Unquoted SLR Securities

In respect of unquoted securities, the procedure as detailed below should be adopted.

#### (i) Central Government Securities

- (a) The Reserve Bank will not announce the YTM rates for unquoted Government securities, for the purpose of valuation of investments by 32 banks. The banks shall value the unquoted Central Government securities on the basis of the prices/YTM rates put out by the Financial Benchmark India Pvt. Ltd. (FBIL) at periodical intervals.
- (b) It is clarified that the reckoning of number of years for the purpose of deciding upon appropriate 'Yield To Maturity' (YTM) Rate be done by rounding off the fractional period of a year to the nearest completed year.
- (c) As regards valuation of other unquoted securities including PSU bonds, banks should uniformly follow YTM method for arriving at valuation of unquoted securities.

#### (ii) Treasury Bills should be valued at carrying cost.

#### (iii) State Government Securities- State Government securities shall be valued on the basis of the prices / YTM rates put out by FBIL periodically.

#### (iv) Other Approved Securities

Other approved securities will be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by FBIL periodically.

### 20.2.3 Unquoted Non-SLR securities

#### (i) Debentures/Bonds

All debentures/bonds other than debentures/ bonds which are in the nature of advance should be valued on the YTM basis. Such debentures/bonds may be of different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government securities as put out by PDAI/FIMMDA periodically. The mark-up will be graded according to the ratings assigned to the debentures/bonds by the rating agencies subject to the following :

- (a) The rate used for the YTM for rated debentures/bonds should be at least 50 basis points above the rate applicable to a Government of India loan of equivalent maturity,



- (b) The rate used for the YTM for un-rated debentures/ bonds should not be less than the rate applicable to rated debentures/bonds of equivalent maturity. The mark-up for the un-rated debentures/bonds should appropriately reflect the credit risk borne by the bank.
- (c) Where interest/principal on the debenture/bonds is in arrears, the provision should be made for the debentures as in the case of debentures/bonds treated as advances. The depreciation/provision requirement towards debentures where the interest is in arrears or principal is not paid as per due date, shall not be allowed to be setoff against appreciation against other debentures/ bonds.
- (ii) Where the debentures/bond is quoted and there have been transactions within 15 days prior to the valuation date, the value adopted should not be higher than the rate at which the transaction is recorded on the stock exchange.

**(iii) Shares of Co-operative Institutions**

If bank have regularly received dividends from co-operative institutions, then their shares should be valued at face value. In a number of cases, the co-operative institutions in whose shares the Bank have made investments have either gone into liquidation or have not declared dividend at all. In such cases, the banks should make full provision in respect of their investments in shares of such co-operative institutions. In cases where the financial position of co-operative institutions in whose shares bank have made investments is not available, the shares have to be taken at Re. 1/- per co-operative institution.

**(iv) Valuation of Non-SLR securities issued by the Government of India**

- (a) Over the years, the Government of India has, from time to time, issued several special securities which do not qualify for the purpose of complying with the SLR requirements of UCBs. Such Government securities are governed by a separate set of terms and conditions and entail a higher degree of illiquidity spread.
- (b) The limited purpose of valuation, all special securities issued by the Government of India, directly to the beneficiary entities, which do not carry SLR status, may be valued at a spread of 25 bps above the corresponding yield on Government of India securities.
- (c) Such special securities comprise: Oil Bonds, Fertiliser Bonds, bonds issued to the State Bank of India (during the recent rights issue), Unit Trust of India, Industrial Finance Corporation of India Ltd., Food Corporation of India, Industrial Investment Bank of India Ltd., the erstwhile Industrial Development Bank of India and the erstwhile Shipping Development Finance Corporation.





#### 20.2.4. Units of Mutual funds

Investments in quoted debt/money market Mutual Fund Units should be valued as per stock exchange quotations. Investments in non-quoted Mutual Funds Units are to be valued on the basis of the latest re-purchase price declared by the Mutual Funds in respect of each particular Scheme. In case of funds with a lock-in period, or where repurchase price/market quote is not available, units could be valued at Net Asset Value (NAV). If NAV is not available, then these could be valued at cost, till the end of the lock-in period.

#### 20.2.5. Commercial Papers

Commercial papers shall be valued at the carrying cost.

### 21. INVESTMENT FLUCTUATION RESERVE (IFR)

With a view to build up adequate reserves to guard against market risks :

- 21.1 Bank should build up IFR out of realised gains on sale of investments, and subject to available net profit, of a minimum of 5 per cent of the investment portfolio. This minimum requirement should be computed with reference to investments in two categories, viz. HFT and AFS. It will not be necessary to include investment under HTM category for the purpose. However, banks are free to build up a higher percentage of IFR up to 10 per cent of the portfolio depending on the size and composition of their portfolio, with the approval of their Board of Directors.
- 21.2 Bank should transfer maximum amount of the gains realised on sale of investment in securities to the IFR. Transfer to IFR shall be as an appropriation of net profit after appropriation to Statutory Reserve.
- 21.3 The IFR, consisting of realised gains from the sale of investments from the two categories, viz., HTF and AFS, would be eligible for inclusion in Tier II capital.
- 21.4 Transfer from IFR to the Profit and Loss Account to meet depreciation requirement on investments would be a 'below the line' extraordinary item.
- 21.5 Bank should ensure that the unrealised gains on valuation of the investment portfolio are not taken to the Income Account or to the IFR.
- 21.6 Bank may utilize the amount held in IFR to meet, in future, the depreciation requirement on investment in securities.
- 21.7 A bank may, at its discretion, draw down the balance available in IFR in excess of 5 per cent of its investment in AFS & HFT for credit to the balance of profit / loss as disclosed in the profit and loss account at the end of any accounting year. In the event the balance in the IFR is less than 5 per cent of its investment in AFS & HFT, a draw down will be permitted subject to the following conditions:



- (a) The drawn down amount is used only for meeting the minimum Tier I capital requirements by way of appropriation to free reserves or reducing the balance of loss, and
- a) The amount drawn down is not more than the extent to which the MTM provisions made during the aforesaid year exceed the net profit on sale of investments during that year.

**21.8 Distinction between IFR and Investment Depreciation Reserve (IDR)**

It may be noted that IFR is created out of appropriation from the realised net profits and forms part of the reserves of the bank qualifying under Tier II capital.

IDR is a provision created by charging diminution in investment value to Profit and Loss Account. While the amount held in IFR should be shown in the balance sheet as such, the amount held in IDR should be reported as Contingent provisions against depreciation in investment.

**22. Modifications/Additions in Policy.**

Any modification/addition in the Investment Policy will be taken up and review to effect and incorporate changes, arising as result of changes in monetary fiscal & regulatory policy of the Government of India, Reserve Bank of India & Registrar of Co-operative Societies from time to time. It is clarified that bank will endeavor to meticulously adhere to the provisions of the master circular No.DOR.MRG.REC.10/21.04.141/2022-23 April 01, 2022 on investment by Primary (Urban Co-operative Banks) as updated from time to time.

**23. Conclusion.**

This policy will be taken up for review as and when there are major changes in the environment arising out of changes in the monetary policy of Reserve Bank of India, fiscal policy of Government of India and changes in the nature and types of instruments and players in the financial market. However, in the absence of any such major changes in the economic and banking scenario, this policy will continue to be in force. The changes made by the RBI and Government of India must be complied with the Policy should be revised/rectified/ amended thereafter. Investment policy is a dynamic concept which has to keep pace with the market changes. Keeping this in mind, this policy has been framed and shall be valid till it is revised.

For The Janata Co-operative Bank Ltd.

(P.S. Pathania)  
Managing Director

