

EARLY IMPRESSIONS

Master Direction - Classification, Valuation and
Operation of Investment Portfolio of Commercial
Banks (Directions), 2023

Sector: Banking

Target audience: CFO, CIO, CRO,
credit teams, operations teams
and Audit Committees

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The regulatory guidelines on classification and valuation of investment portfolio held by commercial banks are largely based on a framework introduced in October 2000, drawing upon the then prevailing global practices and standards.

In view of significant developments in global reporting standards on classification, measurement and valuation of investments, a need was felt by the RBI to review and update the existing norms. A discussion paper on this subject was issued for public comments on 14 January 2022.

Based on the inputs received on the discussion paper, the RBI has now introduced a revised regulatory framework (the 'Directions' or the 'Circular') for the investment portfolio, which all Banks, other than Regional Rural Banks, will need to comply with.

These directions shall come into effect for the accounting period commencing on or after 1 April 2024.

In this Early Impressions publication, whilst we have analysed these Directions and have provided our perspective on certain accounting and reporting matters which will be relevant for Banks to consider as they assess and implement the requirements of these Directions, from a business portfolio alignment perspective, some of the potential business / economic impacts are:

Greater freedom to manage the HFT portfolio

Considering that the 90 day limit for retaining an investment in the Held for Trading (HFT) category is removed, the Banks may classify a broader pool of bonds and loans under HFT, which was not the case previously as they lacked certainty if such securities could be sold within 90 days of its acquisition.

Fillip to the corporate bond market

The RBI has removed the ceiling on the Held to Maturity (HTM) in the Banks investment portfolios. Currently, government bonds are the most common form of investment in HTM. With the introduction of the Directions, the short term corporate bond market is expected to receive a fillip as Banks will have greater leeway to invest in corporate bonds (which was permitted in a narrow manner earlier) they intend to hold to maturity, in alignment with their business model. Further, it is also expected to boost the Banks appetite for government securities.



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Move towards fair value accounting

The RBI has also barred instruments with loss-absorbing features (such as those qualifying for additional tier 1 or tier 2 capital regulations), equity and preference shares from being held under AFS or HTM categories. Banks will have to hold such investments in their Fair Value through Profit and Loss (FVTPL) book, which will require fair value (FV) accounting, with the FV change being reflected in the profit and loss account at frequent time intervals.

In summary, the Directions would ensure that the investment classifications are reflective of the business models of Banks and greater transparency would be achieved through the disclosures, which will explain the details of the business models adopted by the Banks.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to provide clarifications on our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

For Uniquis India Private Ltd.

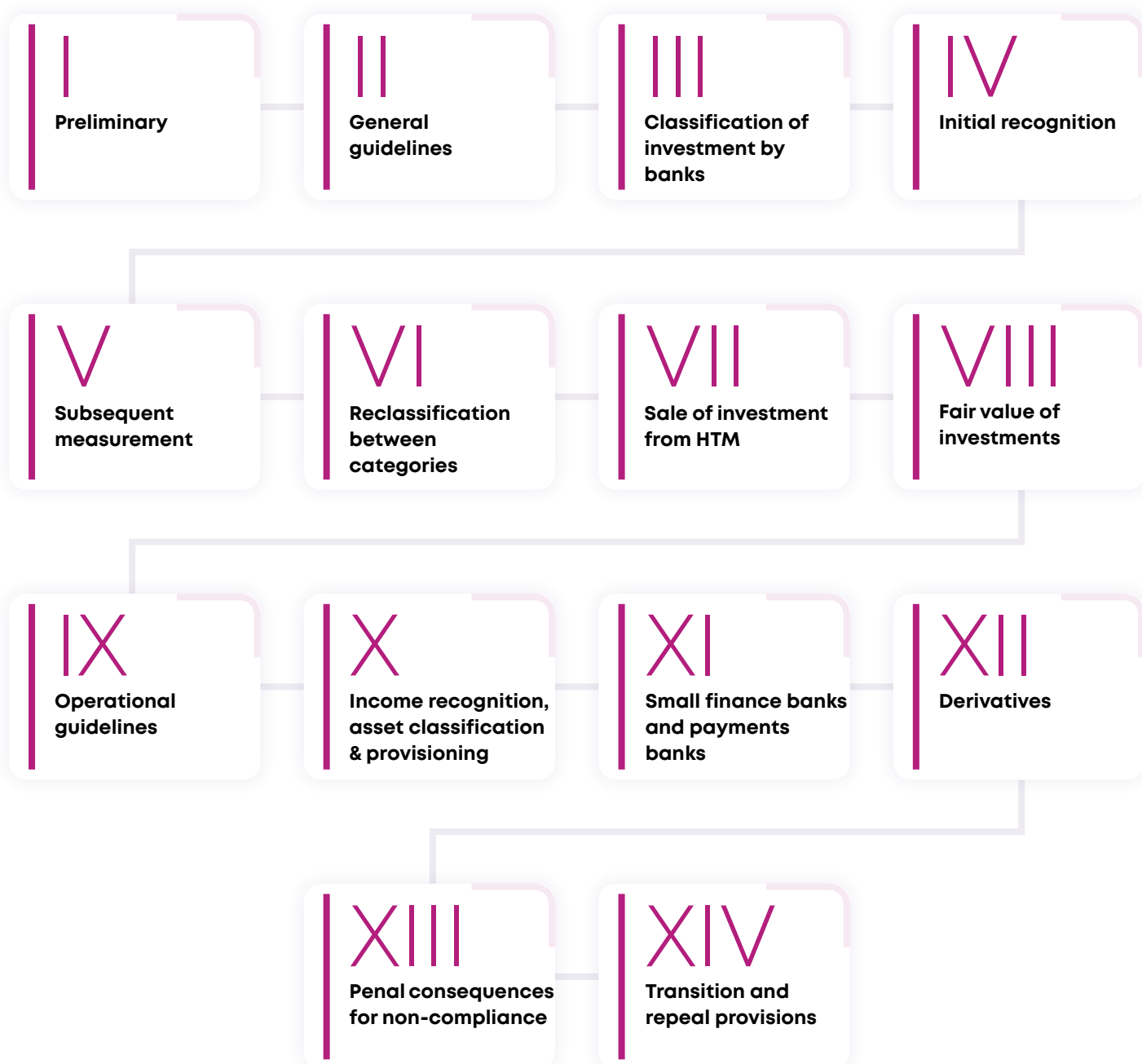
21 September 2023



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Analysis of the Directions

- Whilst the Directions update the regulatory guidelines with global standards and best practices, it would be pertinent to note that some of the detailed implementation aspects as required in the Directions are different from the requirements of Indian Accounting Standard (Ind AS) 109 or International Financial Reporting Standards (IFRS) 9, Financial Instruments.
- In summary, the Directions introduce a symmetric treatment of fair value gains and losses, a clearly identifiable trading book under Held for Trading (HFT), removing the 90-day ceiling on holding period under HFT, removal of ceilings on Held to Maturity and more detailed disclosures on the investment portfolio. Further, to facilitate smooth implementation, illustrative guidance has been annexed to the Directions.
- The Directions are divided into the following XIV chapters:



Chapter I - Preliminary

This chapter contains important definitions which Banks will need to consider as they apply the requirements of the Directions. Some of the definitions where Banks will need to institute formalised policies for their wider teams to implement and comply with are as follows:

01

Active market – has been defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The test for active market is done with reference to the instrument rather than the entire market. For instance, if a particular listed equity share is not traded/ thinly traded on an exchange where other shares are actively traded, this particular share cannot be said to have an active market.

Uniquis view

The frequency of trading, availability of transparent pricing and assessment of fluctuations in prices will need to be monitored to demonstrate the conclusion of an active market or otherwise.

Additionally, this assessment will involve greater judgment for Over the Counter (OTC) trades, which will also need to be similarly assessed and monitored.

02

Subsidiary has been defined as the definition prevailing in Accounting Standard 21, Associate has been defined as the definition prevailing in Accounting Standard 23 and Joint Venture has been defined as the definition prevailing in Accounting Standard 27.

Uniquis view

It is relevant to note that the Directions do not touch upon the Ind AS definitions of Subsidiaries, Associate and Joint Venture, whereby certain differences exist between the Accounting Standard and Ind AS requirements.

03

Day 1 gains and losses – this is a concept which was hitherto not used in the reporting framework.

Uniquis view

Banks will now need to introduce a process to monitor the Day 1 gains and losses, so that they can be accounted for as per the requirements of the Directions.

04

Fair value has been defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Uniquis view

A question arises in instances where the measurement date is a weekend or a public holiday. In such instances one would not see any transactions taking place on the measurement date. Hence does this mean that in the absence of a fair value on the measurement date, all financial assets will need to be disclosed as Level 2 as the definition of Level 1 also indicates a reference to availability to quoted prices on the measurement date. It may be useful for the RBI and the stakeholders to engage and clarify the manner of implementation of this requirement. This will ensure consistency in application and disclosure of such transactions.

05

Principal market has been defined as the market with the greatest volume and level of activity for that financial instrument.

Uniquis view

Banks will need to introduce a process to monitor which is the 'principal market' for each instrument as the same could vary from period to period.

Chapter II – Investment Policy Framework

01

This chapter requires the Banks to have a comprehensive investment policy which has to be approved by the Board of Directors of the Bank.

The Directions also lay down the minimum elements which should be included in the investment policy.

Uniquis view

Firstly, Banks will need to ensure comprehensive coverage in relation to the requirements of matters of inclusion in their policy as stated in the Directions as there is an onerous responsibility on the Investment Committee (set up by the Banks board) by holding it accountable for all the investments made by the Bank.

Secondly, investment proposals shall now be subject to the same degree of credit risk analysis as any loan proposal. Whilst this may be happening in practice, Banks may need to significantly enhance their internal documentation to demonstrate compliance with this requirement of the Directions.

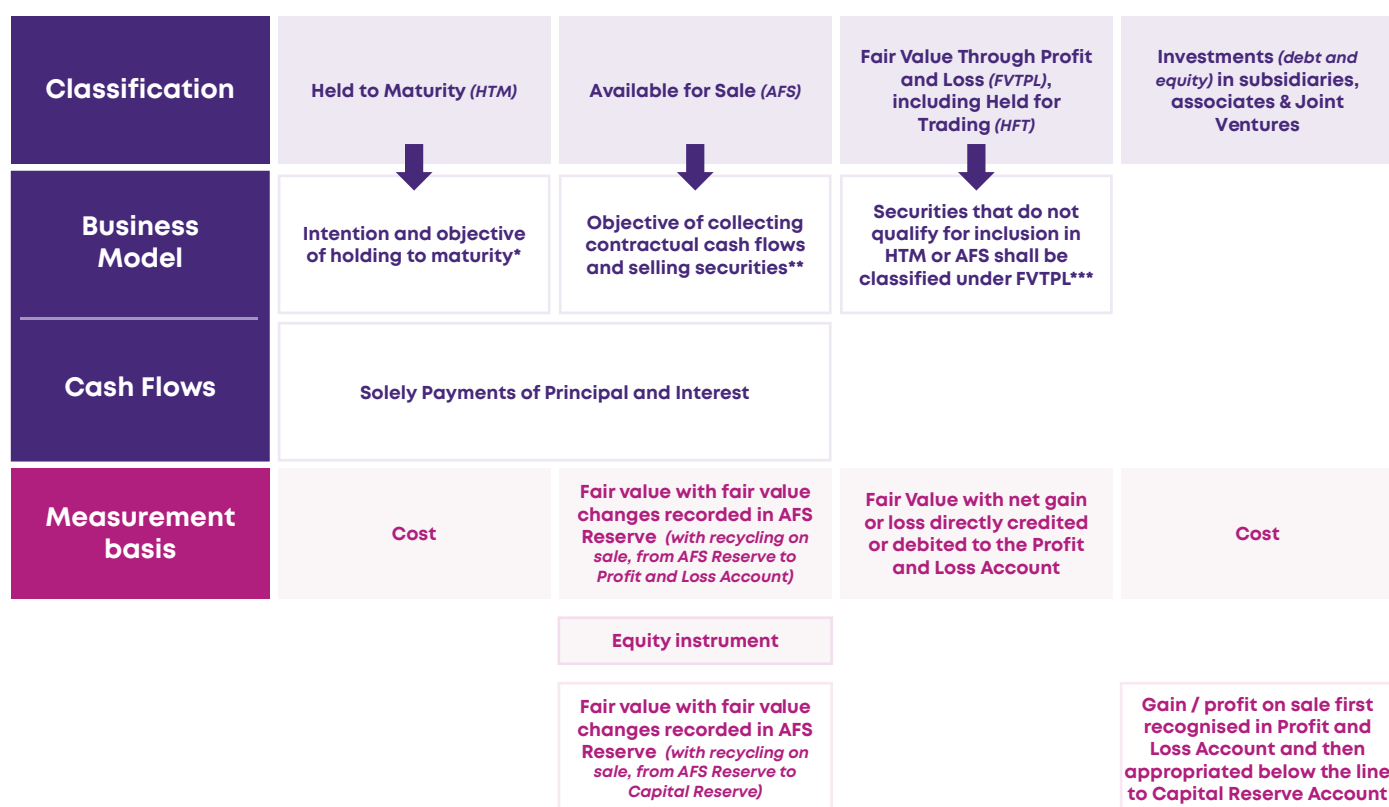
Thirdly, there is also a requirement on Banks to determine the rating of the investee even in respect of rated issues and Banks should not entirely rely on the ratings of external credit rating agencies. This will be a change for some Banks, who historically would be placing reliance on external agencies and may not necessarily be devising the ratings in house.

Finally, the Directions are also applicable to the subsidiaries and mutual funds established by Banks, except to the extent they are contrary to or inconsistent with specific regulations of the RBI, SEBI, Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA) governing their operations. Banks with diversified financial services business will need to undertake a careful evaluation of applicability of any incremental requirements arising from the Directions, to the broader group. Similar to the current practice, this will also result in different accounting and reporting approaches, as the one followed by the Bank and the one followed by the subsidiaries and mutual funds established by the Bank could be different.

Chapter III – Classification of Investments by Banks

Banks shall classify their entire investment portfolio (except investments in their own subsidiaries, joint ventures and associates) under three categories, i.e. Held to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss (FVTPL). Held for Trading (HFT) shall be a separate investment subcategory within FVTPL. The category of the investment shall be decided by the Bank before or at the time of acquisition and this decision shall be properly documented.

Classification and Measurement



* Para 6.1(b) of the Directions calls out securities which shall not meet the Solely Payment of Principal and Interest (SPPI) criteria and hence shall not be eligible for classification as either HTM or AFS

** on initial recognition, a bank may make an irrevocable election to classify an equity instrument that is not held with the objective of trading under AFS

*** Banks shall create a separate sub-category called HFT under FVTPL. Banks shall comply with the requirements specified in Annex I of the Directions for classifying investments under HFT

All categories of investments shall be subject to income recognition, asset classification and provisioning norms as specified in Chapter X of the Directions

01

Banks shall continue to present the investments in the Balance Sheet as set out in The Third Schedule to the Banking Regulation Act.

The Directions define when a security shall be classified as HTM, AFS, FVTPL and HFT.

All investments in subsidiaries, associates and joint ventures are to be held in a distinct category for such investments, which shall be separate from the other investment categories i.e., HTM, AFS and FVTPL.

Unique view

The classification rules for investments by Banks are now broadly aligned with the requirements of Ind AS 109 and IFRS 9, with some additional prescriptive guidance in relation to the HFT category within FVTPL as well as very specific guidance now embedded within the Directions itself of what can and cannot form a part of HTM, AFS and FVTPL.

Also, the Directions impose an onerous responsibility on Banks to categorise the investment and document the decision of categorisation of an investment before or at the time of making the investment.

Banks will need to institutionalise a process to comply with this requirement, which will need to factor in the timing, manner and details of what aspects need to be documented and maintained as the same may be subject to audit and scrutiny at a later point in time.

Chapter IV – Initial recognition

All investments shall be measured at fair value on initial recognition. Unless facts and circumstances suggest that the fair value is materially different from the acquisition cost, it shall be presumed that the acquisition cost is the fair value.

01

Any day 1 gains arising from Level 3 investments shall be deferred, with the deferment being on a straight-line basis for debt instruments, whilst for unquoted equity instruments, the gain shall be set aside as a liability until the security is listed or derecognized.

Any day 1 loss arising from level 3 investments shall be recognised immediately.

Uniquis view

The directions require the presumption of acquisition cost equaling fair value to be tested in the following situations:

- The transaction is between related parties.
- The transaction is taking place under duress where one party is forced to accept the price in the transaction.
- The transaction is done outside the principal market for that class of securities.
- Other situations, where in the opinion of the supervisor, facts and circumstances warrant testing of the presumption.

The above exception will require introduction of processes at the Banks end to ensure:

- a) the assessment is appropriately documented
- b) appropriate data points are identified and sourced to undertake the assessment
- c) process is consistently repeated at each reporting period end.

Chapter V – Subsequent measurement

The Directions provide guidance on subsequent measurement for HTM, AFS, FVTPL categories as well as for investments in subsidiaries, associates and joint ventures.

01

HTM

Securities held in HTM shall be carried at cost and shall not be marked to market (MTM) after initial recognition. However, they shall be subject to income recognition, asset classification and provisioning norms (IRAC) as specified in Chapter X of the Directions.

In this publication, the reference to IRAC is in the context of the RBI Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances issued vide circular DOR. STR.REC.3/21.04.048/2023-24 dated April 1, 2023, as amended from time to time.

AFS

The securities held in AFS shall be fair valued at least on a quarterly basis, if not more frequently.

The net appreciation or depreciation on AFS securities (net of taxes) shall be directly credited or debited to an AFS reserve without routing through profit and loss account.

Securities under AFS shall be subject to income recognition, asset classification and provisioning norms as specified in Chapter X of these Directions.

The unrealized gains transferred to AFS reserve shall not be available for distribution of dividend or as coupon on Additional Tier 1 debt.

Upon sale or maturity of a debt instrument in AFS category, the accumulated gain/ loss for that security in the AFS Reserve shall be transferred from the AFS Reserve and recognized in the Profit and Loss Account.

In the case of equity instruments designated under AFS at the time of initial recognition, any gain or loss on sale of such investments shall not be transferred from AFS-Reserve to the Profit and Loss Account. Instead, such gain or loss shall be transferred from AFS Reserve to the Capital Reserve and thereafter the regulations governing the utilization of capital reserves will need to be followed.

FVTPL

The securities held in FVTPL shall be fair valued and the net gain or loss arising on such valuation shall be directly credited or debited to the Profit and Loss Account. Securities that are classified under the HFT sub-category within FVTPL shall be fair valued on a daily basis, whereas other securities in FVTPL shall be fair valued at least on a quarterly basis.

Securities under FVTPL shall be subject to IRAC norms as specified in Chapter X of the Directions.

Investments in subsidiaries, associates and joint ventures

All investments (i.e., including debt and equity) in subsidiaries, associates and joint ventures shall be held at acquisition cost.

The Directions provide detailed guidance on the accounting and presentation in instances where an investee become or ceases to be a subsidiary, associate or joint venture.

Banks will be required to assess investments in subsidiaries, associates or joint ventures for impairment on at least a quarterly basis. A non-exhaustive list of impairment indicators has been provided in the Directions, which will need to be evaluated.

Uniquis view

Both AFS and FVTPL will be measured at FV. Currently, losses in AFS portfolio are recorded in the profit and loss account. Gains and losses will now be recorded in the AFS reserve. This will reduce volatility in the treasury book and hence the net profit. FVTPL gains or losses will be recorded in the profit and loss account. This portfolio will hence need to be deftly managed by Banks.

Also, under Ind AS 109 and IFRS 9, FVTPL positions are not subject to separate impairment and income recognition rules as such positions are anyways reflected on a FV basis with all FV changes being routed through the income statement. The Directions, however, also seem to be bringing the FVTPL securities under the IRAC purview.

Another question which arises is the accounting for enforcement of borrower company equity shares in lending arrangements. By virtue of such enforcement, the Bank may own greater than twenty or fifty percent of the borrower company shares. Until now, Banks have not been consolidating entities where the significant influence/control is intended to be temporary or where the objective of control is not to obtain economic benefit from their activities. Also, such investments have been held at cost. With the introduction of the Directions, such enforced equity shares will not be classified as investments in associates or subsidiaries. Also, they will not meet the definition of HTM. Hence the possible outcomes may be classification under HFT or AFS. This will require Banks to FV such investments at periodic intervals, as compared to the cost approach which has been followed until now.

Additionally, as can be noted from the above, there are detailed and prescriptive requirements on the accounting and presentation of differently classified securities. The Banks will need to appropriately reflect the same in the chart of accounts and draw up an appropriate schema of accounting entries to adhere to the prescriptive requirements of the Directions.

Finally, for investments in subsidiaries, associates and joint ventures, Banks will need to put in place a detailed impairment policy, which at the minimum will need to include the triggers as stated in the Directions. Such policy will then need to be applied at least on a quarter basis and the outcome of the same will need to be appropriately documented and approved by those charged with governance.

Chapter VI – Reclassification between categories

01

Banks shall not reclassify investments between categories (i.e. HTM, AFS and FVTPL (including reclassification from / to HFT)) without the approval of their BOD. Further, reclassification shall also require the approval of the Department of Supervision of the RBI. The Directions specifically highlight that permission for reclassification shall be given in rare circumstances, where the Bank can demonstrate to the satisfaction of the supervisors that such reclassification is necessitated by a significant change in the way in which it proposes to manage a group of investments. For instance, a Bank may decide to shut down a particular line of business and accordingly investments originally acquired with the intent to hold till maturity are now held for sale. In instances where the RBI approval is not obtained, Banks will need to continue to follow the classification and measurement requirements as applicable to HTM positions.

Where a reclassification is taking place after following the due process, the reclassification should be applied prospectively from the reclassification date.

The Directions provide detailed guidance on the accounting for reclasses from the HTM, AFS and FVTPL portfolios.

Uniquis view

The intent of the Directions is that reclassifications are a rare event and one which requires the BOD and prior RBI approval. This highlights the importance of the requirement of Chapter III, Classification of Investments by Banks, which requires that the category of investment be decided by the Bank before or at the time of acquisition and this decision be properly documented.

Further, whilst earlier Banks were allowed to book profits and consequently reduce potential future losses, by transferring part of their HTM book to either AFS or HFT, an approach which allowed many Banks to avoid a large loss during rising interest rate cycles, this option now will not be possible on a go forward basis by virtue of the above transfer restrictions.

Hence this again re-emphasises the importance of an appropriate classification by Banks at the time of making the investment.



Chapter VII – Sale of investments from HTM

01

Any sales from HTM shall be as per a Board approved policy. Details of sales out of HTM shall be disclosed in the notes to accounts of the financial statements in the format specified in Annex II of the Directions.

In any financial year, the carrying value (book value of securities sold to be considered rather than the sale consideration) of investments sold out of HTM shall not exceed five per cent of the opening carrying value of the HTM portfolio. Any sale beyond this threshold shall require prior approval from the RBI.

The Directions prescribe certain situations where the sale shall be excluded from the regulatory limit of 5 per cent.

Any profit or loss on the sale of investments in HTM shall be recognised in the Profit and Loss Account. The profit on sale of an investments in HTM shall be appropriated below the line from the Profit and Loss Account to the 'Capital Reserve Account'. The amount so appropriated shall be net of taxes and the amount required to be transferred to Statutory Reserve.

Unique view

To comply with the requirements of the Directions, Banks will need to develop a board approved policy on sale of investments from HTM.

A monitoring mechanism will need to be developed to assess compliance with the 5 per cent threshold, as required by the Directions.

The prescribed accounting as stated in the Directions, will need to be followed, which as such is different from what one would note under Ind AS 109 and IFRS 9, which does not provide prescriptive guidance as enunciated in the Directions, however, requires an assessment of whether the sale is 'infrequent' and 'insignificant', basis which a determination is required to be made of following the hold to collect business model.



Chapter VIII – Fair Value of investments

01

The Directions provide guidance on how FV shall be determined for quoted securities, unquoted SLR securities and unquoted non SLR securities. Overall, prices declared by the Financial Benchmarks India Pvt. Ltd (FBIL) have been ascribed primacy in the determination of FV.

There are specific and prescriptive details which have been laid out, including the valuation approach which needs to be followed by Banks for different instruments.

To increase consistency and comparability in fair value measurements and related disclosures, Banks shall categorize its investment portfolio into three fair value hierarchies i.e. Level 1, Level 2, and Level 3, the disclosure template for which is provided in Annex II of the Directions.

The details of the investment portfolio shall be disclosed in the notes to accounts of the financial statements as per templates specified in Annex II of the Directions. These disclosure requirements shall become effective from the audited financial statements for the financial year ending 31 March 2026 onwards.

Banks shall not pay dividends out of net unrealised gains recognised in the Profit and Loss Account arising on fair valuation of Level 3 investments on their Balance Sheet. Further, such net unrealised gains on Level 3 investments recognised in the Profit and Loss Account or in the AFS-Reserve shall be deducted from Common Equity Tier (CET) 1 capital.

Provided that this clause shall not apply to investments that meet the Solely Payment of Principal and Interest (SPPI) criteria and are required to be risk weighted at 50 per cent or lower for credit risk as per applicable regulatory instructions on capital adequacy.

Uniquis view

The valuation policy of the Banks will need to ensure that the prescriptive guidance as contained in the Directions is appropriately factored.

If any changes are required to the existing valuation approach, the revised valuation approach will need to be implemented on a timely basis.

The approach and policy on leveling of investments will need to be adopted and applied since the same will also need to be disclosed in the notes to accounts as well as it has implications on dividend distribution and capital calculations.

Chapter IX – Operational guidelines

01

The Directions provide detailed operational guidance in relation to government securities, non SLR securities, internal control system, engagement of brokers and audit, review and reporting.

This section also highlights the role of the Board towards ensuring that appropriate risk management systems are in place for capturing and analysing the risks.

Uniquis view

The operational policy of the Banks will need to ensure that the prescriptive guidance as contained in the directions is appropriately factored and applied in practice, including formulating appropriate reporting mechanisms to the Board to enable them to discharge their supervisory responsibilities.

Chapter X – Income recognition, asset classification and provisioning

01

Income recognition

Banks shall recognise income on an accrual basis for government securities, bonds and debentures of corporate bodies and dividend on investment in shares of corporate bodies provided dividend has been declared by the corporate body in its annual general meeting and the investors right to receive payment is established.

Income from units of MF, AIF and such other collective investment funds shall be recognised on a cash basis.

Dividend income on equity investments classified under AFS shall be recognised in the profit and loss account.

Accounting for broken period interest

Banks shall not capitalise the broken period interest paid to the seller as a part of the cost and shall treat it as an item of expenditure in the profit and loss account.

Non performing investments

The criterion used to classify an asset as Non-Performing Asset (NPA) as per the extant Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances shall be used to classify an investment as a Non-Performing Investment (NPI). Similarly, an NPI shall only be upgraded to standard when it meets the criteria specified in the IRAC norms.

If any credit facility availed by the issuer is NPA in the books of the Bank, investment in any of the securities, including preference shares issued by the same issuer shall also be treated as NPI and vice versa. However, 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 Non Performing Investment (NPI) and any performing credit facilities granted to that borrower need not be treated as Non Performing Asset (NPA).

Once an investment is classified as an NPI, it should be segregated from rest of the portfolio and not considered for netting valuation gains and losses.

Banks shall not accrue any income on NPIs. Income shall be recognised only on realisation of the same. Further, any MTM appreciation in the security shall be ignored.

Investments in Central Government Securities and State Government Securities shall not be classified as NPI.

Investments in Central Government guaranteed securities shall also not be classified as NPI until the Central Government has repudiated the guarantee when invoked. In respect of such securities held in AFS and FVTPL, banks shall continue to recognise MTM gains/losses in AFS-Reserve and Profit and Loss respectively. However, any income such as interest shall be recognised only on realisation basis.

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 bank remains unpaid for more than 90 days.

Investment Fluctuation Reserve

Banks shall create an Investment Fluctuation Reserve (IFR) until the amount of IFR is at least two per cent of the AFS and FVTPL (including HFT) portfolio, on a continuing basis, by transferring to the IFR an amount not less than the lower of the following:

- i. Net profit on sale of investments during the year.
- ii. Net profit for the year, less mandatory appropriations.

The Directions further provide guidance on capital treatment of the IFR balance and draw down or replenishment of the IFR.

Uniquis view

Some areas where there are differences with Ind AS 109 and IFRS 9 are:

- | | | |
|--|--|--|
| <p>a) recognition of interest on stage 3 assets i.e., the NPI equivalent in the context of the existing circular, whereby the circular requires recognition of income on a receipt basis, whereas Ind AS supports recognition on an accrual basis</p> | <p>b) accounting for broken period interest whereby the circular mandates this as an item of expenditure in the profit and loss account whereas under Ind AS the same is factored as a part of the EIR workings</p> | <p>c) IFR – such a concept does not exist under the Ind AS framework.</p> |
|--|--|--|

Chapter XI – Small Finance Banks and Payments Banks

The provisions of these Directions shall be applicable to SFBs (PBs) in so far as these provisions are not in conflict with the Guidelines for Licensing of Small Finance Banks (Payments Banks) in the Private Sector and Operating Guidelines for Small Finance Banks (Payments Banks) dated 6 October 2016, as amended from time to time.

Chapter XII – Derivatives

01

Banks shall comply with the requirements of the Guidance Note on Accounting for Derivative Contracts (revised 2021) issued by the Institute of Chartered Accountants of India except for paragraph 63 of the said Guidance Note.

Banks shall present their derivative asset and liabilities as separate line items under Schedule 11: 'Other Assets' and Schedule 5: 'Other Liabilities' respectively.

Banks may make adjustments to the carrying value of their investments in compliance with the hedge accounting requirements of the said Guidance Note.

Similar to Investments, Banks shall categorize their derivatives portfolio into Level 1, Level 2, and Level 3 and disclose the same in the notes to accounts of their financial statements as per template specified in Annex II to the Directions.

Banks shall not pay dividends out of net unrealised gains recognised in the Profit and Loss Account arising on fair valuation of Level 3 derivatives assets and liabilities on their Balance Sheet. Further, such net unrealised gains on Level 3 derivatives recognised in the Profit and Loss Account shall be deducted from CET 1 capital.

Uniquis view

Whilst the accounting requirement seems to be largely aligned, there could be potential differences in the manner in which hedge accounting is applied in practice as well as certain dividend payment restrictions on gains arising from Level 3 derivative assets, as compared to how one would implement the requirement under Ind AS 109 / IFRS 9.

Chapter XIII – Penal consequences and non compliance

01

Implementation of these Directions shall be reviewed under the supervisory process and any non-compliance in this regard shall be dealt with appropriately.

Uniquis view

By including the implementation of the Directions under the supervisory review process, the RBI has indicated its seriousness on its expectations of appropriate implementation of the Directions by the Banks.

Chapter XIV – Transition and repeal provisions

01

The Directions contains detailed guidance on transition to these directions prospectively on 1 April 2024.

Further, disclosures of the transitional adjustments will be required to be made in the notes to the financial statements for the year ending 31 March 2025.

Uniquis view

The form and manner of implementation of the transition disclosures is something which will need to be devised by Banks.

In relation to the other disclosure templates as provided in Annexure II of the Directions, the template alludes to columns of 'Current year' and 'Previous Year'. The Banks will need to clarify with the RBI as to for the first year ending 31 March 2025, whether is there an expectation of also populating the 'Previous Year' column or can that column remain blank, considering that the Directions are applicable only from 1 April 2024.

Other matters

Annexure V provides Illustrative guidance on application of the Directions followed by Guidance on journal entries for specific situations. This is helpful information for Banks to be well versed with as they implement the requirements of the Directions.



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