SLR Requirements

RBI Guidelines on valuation of securities

Maintenance of Statutory Liquidity Ratio (SLR)

- Reserve Bank can prescribe the SLR for Scheduled Commercial Banks in specified assets.
- The value of such assets of a SCB shall not be less than such percentage not exceeding 40 per cent of its total DTL in India as on the last Friday of the second preceding fortnight as the Reserve Bank may, by notification in the Official Gazette, specify from time to time.
  - Current SLR: 23%

Specified Assets for SLR

- Cash or
- Gold valued at a price not exceeding the current market price, or
- Investment in instruments referred to as Statutory Liquidity Ratio (SLR) securities
  - Dated securities.
  - Treasury Bills of the Government of India;
  - Dated securities of the Government of India issued from time to time under the market borrowing programme and the Market Stabilization Scheme;
  - State Development Loans (SDLs) of the State Governments issued from time to time under the market borrowing programme; and
  - Any other instrument as may be notified by the Reserve Bank of India.

DTL

- Demand and Time Liabilities (DTL) are broken up into
  - DTL to the banking system;
  - DTL to Others; and
  - Other DTL.

Liabilities of a bank

- Liabilities of a bank may be towards the banking system or towards others in the form of demand and time deposits or borrowings or other miscellaneous items of liabilities.
- The Reserve Bank of India has been authorized in terms of Section 42 of the RBI Act, 1934, to classify any particular liability

Demand Liabilities

- Demand Liabilities of a bank are liabilities which are payable on demand.
  - current deposits;
  - demand liabilities portion of savings bank deposits;
  - margins held against letters of credit / guarantees;
  - balances in overdue fixed deposits etc.;
  - Demand Drafts (DDs);
  - unclaimed deposits;
  - deposits held as security for advances which are payable on demand.

Time Liabilities

- Time Liabilities of a bank are those which are payable otherwise than on demand.
  - fixed deposits;
  - cash certificates;
  - cumulative and recurring deposits;
  - time liabilities portion of savings bank deposits;
  - margin held against letters of credit, if not payable on demand;
  - deposits held as securities for advances which are not payable on demand; and
  - gold deposits.

Demand liabilities and time liabilities of savings bank deposits

- 30th September and 31st March
- The average of the minimum balances maintained in each of the month during the half year period shall be treated by the bank as the amount representing the "**time liability**" portion of the savings bank deposits.
- When such an amount is deducted from the average of the actual balances maintained during the half year period, the difference would represent the "**demand liability**" portion.
- The proportions of demand and time liabilities so obtained for each half year shall be applied for arriving at demand and time liabilities components of savings bank deposits for all reporting fortnights during the next half year.

Other Demand and Time Liabilities (ODTL)

- ODTL includes:
  - interest accrued on deposits;
  - bills payable;
  - unpaid dividends;
  - suspense account balances representing amounts due to other banks or public;
  - net credit balances in branch adjustment account;
  - Cash collaterals received under collateralized derivative transactions.

Assets with the Banking System

- Assets with the banking system include
  - balances with banks in current account;
  - balances with banks and notified financial institutions in other accounts;
  - funds made available to banking system by way of loans or deposits repayable at call or short notice of a fortnight or less; and
  - loans other than money at call and short notice made available to the banking system

Borrowings from abroad by banks in India

- Loans/borrowings from abroad by banks in India will be considered as 'liabilities to others' and will be subject to reserve requirements.

NDTL Computation

- Computation of NDTL is a multi step process as follows:
- **DTL to the Banking System**
  - Compute Demand Liabilities to the banking system
  - Compute Time Liabilities to the banking system
  - Take the sum of the above two to arrive at **"DTL to the Banking System" - (A)**
- **DTL to Others**
  - Compute Demand Liabilities to others
  - Compute Time Liabilities to others
  - Take the sum of the above to arrive at **"DTL to Others" - (B)**
- Compute **Other Demand and Time Liabilities - (C)**

NDTL Computation

- Calculate **Assets to the banking system - (D)**
- Compute **Net Inter Bank DTL** by subtracting Assets to the Banking System from DTL to the banking system - **(A-D)**
  - If the **Net Inter Bank DTL** so calculated is negative or zero, it is ignored.
- Thus **NDTL** is given by
  - **NDTL** = (A-D)+(B+C) if A-D is greater than zero,
  - **NDTL** = B+C if A-D is less than or equal to zero.

Penalties

- If a banking company fails to maintain the required amount of SLR, it shall be liable to pay to RBI in respect of that default, the penal interest for that day at the rate of 3% per annum above the Bank Rate on the shortfall
  - if the default continues on the next succeeding working day, the penal interest may be increased to a rate of 5% per annum above the Bank Rate for the concerned days of default on the shortfall.

Valuation of Securities

Classification

- The entire investment portfolio of the banks (including SLR securities and non-SLR securities) should be classified under three categories
  - ‘Held to Maturity’,
  - ‘Available for Sale’ and
  - ‘Held for Trading’.

Classification

- The securities acquired by the banks with the intention to hold them up to maturity will be classified under 'Held to Maturity **(**HTM**)'**.
- The securities acquired by the banks with the intention to trade by taking advantage of the short-term price/interest rate movements will be classified under 'Held for Trading (HFT)'.
- The securities which do not fall within the above two categories will be classified under 'Available for Sale (AFS)'.

Valuation

- Investments classified under Held to Maturity 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.
- The individual securities in the Available for Sale category will be marked to market at quarterly or at more frequent intervals.
- The individual securities in the Held for Trading category will be marked to market at monthly or at more frequent intervals

Market value

- The ‘market value’ for the purpose of periodical valuation of investments included in the AFS and HFT would be the market price of the scrip as available from the trades/ quotes on the
  - stock exchanges,
  - SGL account transactions,
  - price list of RBI,
  - prices declared by Primary Dealers Association of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA) periodically.

Unquoted SLR securities

- **Central Government Securities-** Banks should value the unquoted Central Government securities on the basis of the prices/ YTM rates put out by the PDAI/ FIMMDA at periodical intervals.
  - Treasury Bills should be valued at carrying cost
- **State Government Securities-** State Government 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 PDAI/ FIMMDA periodically.
- **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 PDAI/ FIMMDA periodically.