20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **HTM stands for Held to Maturity, securities a bank intends and is able to hold until maturity.**
   HTM securities are valued at acquisition or amortised cost with no mark-to-market impact on profit and loss.

2. **AFS stands for Available for Sale, covering securities not classified as HTM or HFT.**
   AFS securities are marked to market periodically, with net depreciation charged to P&L and net appreciation ignored.

3. **HFT stands for Held for Trading, for securities acquired to trade within a short horizon.**
   HFT securities were originally meant to be held for around 90 days and are marked to market daily through profit and loss.

4. **RBI's revised Master Direction on investment portfolio classification came into effect from 1 April 2024.**
   The revision replaced the old HTM/AFS/HFT system with a modernised three-category framework aligned to IFRS 9.

5. **The revised framework introduces three new categories: AC, FVOCI and FVTPL.**
   Amortised Cost, Fair Value through Other Comprehensive Income, and Fair Value through Profit or Loss broadly replace HTM, AFS and HFT.

6 **The SPPI test checks whether contractual cash flows are Solely Payments of Principal and Interest.**
Passing the SPPI test is a key condition for a security to qualify for Amortised Cost or FVOCI classification.

7 **Securities under Amortised Cost (AC) are measured using the Effective Interest Rate (EIR) method.**
AC classification corresponds broadly to the old HTM category and avoids mark-to-market volatility under normal circumstances.

8 **FVOCI replaced the old AFS category under the revised RBI framework.**
Under FVOCI, fair value changes go to Other Comprehensive Income, a component of equity, instead of directly to profit and loss.

9 **Unrealised gains and losses on FVOCI securities accumulate in an OCI Reserve, formerly called the AFS Reserve.**
This reserve is not available for dividend distribution and acts as a prudential cushion against interest rate risk.

10 **FVTPL is the residual category for securities failing the SPPI test or designated to avoid accounting mismatches.**
FVTPL broadly aligns with the old HFT category but covers a wider range of instruments, including equity shares.

11 **Equity shares that fail the SPPI test are mandatorily classified at FVTPL.**
All fair value changes on FVTPL securities flow directly through the profit and loss account.

12 **Transfers between investment categories are permitted only at the start of the financial year, except in specified cases.**
Any profit or loss arising from an approved transfer between categories is recognised immediately.

13 **SLR securities, mainly G-Secs and SDLs, can be classified under AC, FVOCI or FVTPL.**
RBI expects the majority of SLR holdings to remain in AC (HTC) to minimise mark-to-market volatility.

14 **The Statutory Liquidity Ratio requires banks to hold a minimum share of NDTL in approved securities.**
SLR securities are predominantly Government Securities and State Development Loans.

15 **FBIL, the Financial Benchmarks India Private Limited, is the standard reference for mark-to-market pricing of G-Secs.**
FBIL computes and publishes G-Sec prices and yield curves based on trades on the NDS-OM platform.

16 **FIMMDA publishes reference prices used for marking corporate bonds and debentures to market.**
FIMMDA stands for Fixed Income Money Market and Derivatives Association of India.

17 **NDS-OM is the Negotiated Dealing System-Order Matching platform used for trading Government Securities.**

Prices from trades on NDS-OM feed into FBIL's published G-Sec valuations.

18 **The fair value hierarchy for MTM valuation has three levels of inputs, from quoted prices to unobservable estimates.**

Level 1 uses quoted active market prices, Level 2 uses observable inputs like yield curves, and Level 3 uses internal models.

19 **Rising interest rates cause bond prices to fall, creating mark-to-market losses on AFS/FVOCI and HFT/FVTPL portfolios.**

HTM/AC portfolios are insulated from these day-to-day price movements because they are valued at amortised cost.

20 **Investment classification of bank portfolios is part of the IIBF Treasury Investment Risk Management (TREASURYINVE) syllabus.**

The topic is also relevant for JAIIB and CAIIB candidates studying treasury operations and risk management.