20 True or False

Decide, then check the answer and reason below each statement.

Question 1

Held to Maturity (HTM) securities are valued at acquisition cost or amortised cost, not marked to market.

TRUE

HTM securities have no mark-to-market impact on profit and loss under RBI's traditional classification.

Question 2

Available for Sale (AFS) securities are never marked to market under RBI guidelines.

FALSE

AFS securities are in fact marked to market periodically, with net depreciation charged to profit and loss.

Question 3

Held for Trading (HFT) securities are marked to market on a daily basis.

TRUE

Both gains and losses on HFT securities flow directly through the profit and loss account.

Question 4

RBI's revised investment classification Master Direction came into effect from 1 April 2020.

FALSE

The revised framework actually came into effect from 1 April 2024, not 2020.

Question 5

The revised RBI investment classification framework aligns Indian banking practice more closely with IFRS 9.

TRUE

The three new categories, AC, FVOCI and FVTPL, mirror the IFRS 9 classification approach for financial instruments.

Question 6

The SPPI test stands for Solely Payments of Profit and Interest.

FALSE

SPPI actually stands for Solely Payments of Principal and Interest, a test on contractual cash flow characteristics.

Question 7

Securities classified under FVOCI have fair value changes recognised in Other Comprehensive Income rather than P&L.

TRUE

This treatment reduces earnings volatility while still capturing fair value movements within equity.

Question 8

FVTPL securities are valued only once a year rather than on a mark-to-market basis.

FALSE

FVTPL securities actually require the most rigorous mark-to-market valuation on a daily or periodic basis.

Question 9

Equity shares that do not meet the SPPI test are mandatorily classified at FVTPL.

TRUE

Because equity cash flows are not solely principal and interest, most equity holdings fall into the FVTPL category.

Question 10

Banks can freely transfer securities between investment categories at any time during the year.

FALSE

Transfers between categories are restricted to the start of the financial year except in specified extraordinary circumstances.

Question 11

The AFS Reserve, now called the OCI Reserve, is not available for dividend distribution.

TRUE

This reserve acts as a prudential buffer absorbing unrealised fair value changes on FVOCI securities.

Question 12

SLR securities can only be classified under the FVTPL category.

FALSE

SLR securities can actually be classified under AC, FVOCI or FVTPL, with the majority expected in AC to reduce MTM volatility.

Question 13

FBIL prices are the standard reference for mark-to-market valuation of Government Securities.

TRUE

FBIL, the Financial Benchmarks India Private Limited, computes G-Sec prices and yield curves from NDS-OM trades.

Question 14

FIMMDA prices are used to value Government Securities while FBIL values corporate bonds.

FALSE

It is the reverse: FBIL is the reference for G-Secs, while FIMMDA publishes reference prices for corporate bonds and debentures.

Question 15

Rising interest rates typically cause bond prices to fall, creating mark-to-market losses on AFS or FVOCI portfolios.

TRUE

This inverse relationship between interest rates and bond prices is a core driver of MTM risk for banks.

Question 16

HTM/AC portfolios are highly exposed to daily mark-to-market swings from interest rate movements.

FALSE

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

Question 17

The Statutory Liquidity Ratio requires banks to hold a prescribed share of Net Demand and Time Liabilities in approved securities.

TRUE

SLR securities held for this purpose are predominantly Government Securities and State Development Loans.

Question 18

Level 1 inputs in the fair value hierarchy refer to unobservable inputs based on internal models.

FALSE

Level 1 inputs actually refer to quoted prices in active markets; Level 3 covers unobservable internal-model inputs.

Question 19

Investment classification of bank portfolios is covered in the IIBF TREASURYINVE certification syllabus.

TRUE

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

Question 20

Under the old regime, net appreciation on AFS securities is ignored while net depreciation is charged to profit and loss.

TRUE

This asymmetric treatment is a defining feature of the traditional AFS accounting approach.