

Checklist for the Verification of the aspects of the Treasury/Investments of the Bank in Statutory Audit

SN	Area	Description
1.	Investment Policy	Verify if the Bank has a Board Approved Investment Policy in place and the same has been reviewed on annual basis. Verify if the Investment policy has been framed on concurrence with the limits as allowed by the RBI guidelines.
2.	Statutory Limits	Verify if the Bank has adhered to the Statutory limits as mentioned by RBI and Internal Policies. • Not more than 10% Investment of total Non SLR Securities in Unlisted Non SLR Securities. • Aggregate exposure in Capital Markets not more than 40% of the net worth of the Bank. • Investment in Liquid/Short term schemes of mutual funds not more than 10% of their net worth as on March 31st. • Investments under HTM Category not more than 25% of the total investments.
3.	Income Calculation & Accounting	Verify if the Income on various Investments has been correctly calculated and recorded in the Books of Accounts Interest Calculations on various products like Repo, Government Securities, FDs, CBLO etc Receipt of Dividend on Preference & Equity Shares.
4.	Accounting	Verify the Accounting of the deals in the Treasury System vis a vis the Accounting System

5.	Valuation	<u>Refer RBI Master Circular Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks</u> <u>Classification:</u> Check Securities are prima-facie Classified into following portfolios as AFS, HFT & HTM. <u>Sale/Transfer/Shifting:</u> Verify there are no securities held in the HFT for more than 90 days. Verify there has been no shifting of securities to/from HTM Portfolio without the approval of the Board beyond the allowed percentage as per the RBI i.e. 5% of the HTM Portfolio is allowed only in the beginning of the year. Shifting in excess of 5% of the HTM Portfolio, the Bank should disclose in the Notes to Accounts the Market Value of Investments held in HTM and also indicate the Book Value in excess of Market Value to the extent not provided for. Profit & Loss from the HFT & AFS Category of Investments is taken to P&L Account. <u>Valuation:</u> Check the Valuation of various securities has been performed in line with the RBI Master Circular – Prudential Norms for Classification, Valuation & Operation of Investment Portfolio of Banks. • HTM Portfolio is carried at acquisition cost except in cases of diminution except temporary/Impairment should be provided for. • AFS has to be marked to Market on quarterly or frequent intervals. To arrive at Net Appreciation or Net Depreciation in the portfolio, The securities under same classification can be aggregated to arrive at the Net Appreciation or Net Depreciation. No set off can be done for the Depreciation of 1 classification against the other. • Net Depreciation to be provided for and Net Appreciation to be ignored.
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		• HFT also has to be marked to market or monthly or more frequent intervals. <u>Unquoted SLR Securities:</u> Central Government Securities: Based on the YTM Rates put up by FIMMDA on monthly basis State Government Securities: Based on the YTM Method with the rates/yields published by FIMMDA for C-GSEC of same maturity by marking up 25 basis points. Other Approved Securities: Based on the YTM Method with the rates/yields published by FIMMDA for C-GSEC of same maturity by marking up 25 basis points. <u>Unquoted Non SLR Securities</u> Debentures/Bonds: Based on the YTM Method with the rates/yields published by FIMMDA for C-GSEC of same maturity by marking appropriate mark-up. ZCBs ZCBs should be shown in the books at carrying cost, i.e., acquisition cost plus discount accrued at the rate prevailing at the time of acquisition, which may be marked to market with reference to the market value. In the absence of market value, the ZCBs may be marked to market with reference to the present value of the ZCB. The present value of the ZCBs may be calculated by discounting the face value using the 'Zero Coupon Yield Curve', with appropriate mark up as per the zero coupon spreads put out by FIMMDA periodically. In case the bank is still carrying the ZCBs at acquisition cost, the discount accrued on the instrument should be notionally added to the book value of the scrip, before marking it to market. Preference Shares
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	Valuation of preference shares should be in the following way; a) The YTM rate should not be lower than the coupon rate/ YTM for a Gold loan of equivalent maturity. b) The rate used for the YTM for unrated preference shares should not be less than the rate applicable to rated preference shares of equivalent maturity. The mark-up for the unrated preference shares should appropriately reflect the credit risk borne by the bank. c) Investments in preference shares as part of the project finance may be valued at par for a period of two years after commencement of production or five years after subscription whichever is earlier. d) Where investment in preference shares is as part of rehabilitation, the YTM rate should not be lower than 1.5% above the coupon rate/ YTM for Gold loan of equivalent maturity. e) Where preference dividends are in arrears, no credit should be taken for accrued dividends and the value determined on YTM should be discounted by at least 15 per cent if arrears are for one year, and more if arrears are for more than one year. The depreciation/provision requirement arrived at in the above manner in respect of non-performing shares where dividends are in arrears shall not be allowed to be set-off against appreciation on other performing preference shares. f) The preference share should not be valued above its redemption value. g) When a preference share has been traded on stock exchange within 15 days prior to the valuation date, the value should not be higher than the price at which the share was traded. <u>Equity Shares:</u> Equity Shares should be marked to Market if Listed. Unlisted shares should be valued at Breakup Rates. If the Balance sheet is not available for more than 18
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		months after the end of FY the Equity shares shall be valued at Re.1. <u>Mutual Funds:</u> Quoted Mutual Funds should be valued as per the Stock Exchange Quotes. For Unquoted Mutual funds latest Re-purchase price as offered by the Company. In the absence of Repurchase price the same needs to be valued based on the latest NAV. Investment in RRBs is to be valued at carrying cost (i.e. book value) on a consistent basis. Check whether CD and CP has been classified at carrying cost <u>Conversion Cases</u> The Conversion of Principal/Interest outstanding in Equity or Debentures should be done in the methodology applicable above to Equity & Debentures. <u>Valuation & Classification under VCF</u> Unquoted Securities purchased under VCF shall be classified as HTM for the initial period of 3 years and valued at Cost. And at the end of 3 years shall be transferred to AFS and valued as per the applicable norms above
6.	SGL Bouncing	Check if there is any SGL Bouncing during the period under Audit. In case of SGL Bounce the Penalty is charged to the Bank.
7.	Regulatory Returns	Checks the accuracy of all the Regulatory Returns submitted to the RBI and also verify whether the same have been submitted within the deadlines.
8.	Computation of SLR & CRR	Verify the Mechanism and accuracy of the Computation of SLR & CRR.
9.	Disclosure Requirements	Following Disclosure needs to be made to the Notes to Accounts 1. Details regarding Securities sold under Repo and Purchased against Reverse Repo.

		2. Banks should disclose the details of the issuer composition of non-SLR investments and the non-performing non-SLR investments in the 'Notes on Accounts' of the balance sheet. 3. Transfer of Securities from HTM portfolio to AFS in excess of 5%, Banks should disclose the market value of the Investments and Book Value in excess of Market value for which provision is not been made. 4. The details of corporate debt securities lent or acquired under repo or reverse repo transactions shall be disclosed in the "Notes on Accounts" to the Balance Sheet. 5. In respect of the Non SLR Securities portfolio the Banks needs to disclose the issuer details in the format prescribed vide RBI Master Circular on <u>Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks – Annex IV</u> 6. On the event of SGL Bounce, check whether the number of instances of defaults as well as the quantum of penalty paid to Reserve Bank during the financial year, disclosed under the 'Notes to Account' in its Balance Sheet.
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