

# RBI drops investment fluctuation reserve requirement for banks

Our Bureau  
Mumbai

The Reserve Bank of India on Monday issued final amendment directions dispensing with the need to maintain investment fluctuation reserve requirement for banks that already maintain capital charge for market risk and follow the revised norms governing classification, valuation and operation of investment portfolios.

The IFR acts as a buffer maintained by banks to absorb valuation losses in their investment portfolios arising from interest rate movements and market volatility.

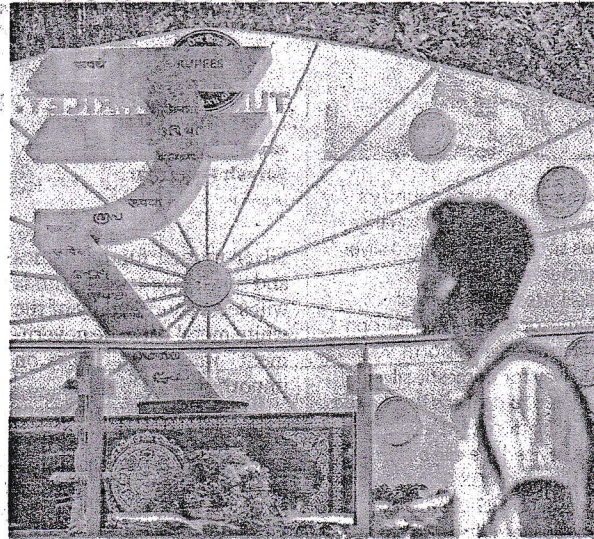
In a statement, the central bank said the amended framework seeks to rationalise IFR requirements, harmonise regulatory instructions across regulated entities and remove inconsistencies in the existing regime.

## REVISED NORMS

Under the revised norms, the RBI has in its amended directions for commercial banks said with effect from May 18, "The requirement of investment fluctuation reserve has been discontinued."

The balance in the IFR as of May 17 would be transferred "below the line" to the statutory reserve, general reserve, or balance of profit & loss account, effectively treating the balance in the IFR as tier-1 capital.

For a foreign bank operating in India in branch mode, the balance in IFR shall be



**SOME BREATHER.** The amended framework seeks to rationalise IFR requirements, harmonise regulatory instructions across regulated entities and remove inconsistencies. REUTERS

transferred directly to 'statutory reserves kept in Indian books' or 'remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India."

The amendments cover a broad set of regulated entities, including commercial banks, small finance banks, payments banks, local area banks, urban co-operative banks, rural co-operative banks and regional rural banks.

For the remaining regulated entities, the central bank has relaxed the compliance requirement by allowing them to maintain the prescribed IFR level only on balance sheet dates instead of on a continuous basis.

According to the RBI, this

move is aimed at reducing operational rigidity while preserving prudential safeguards.

## PRUDENTIAL NORMS

The changes are expected to align prudential norms more closely with the revised investment portfolio framework introduced by the RBI in recent years, which moved toward a more risk-sensitive and market-aligned approach for banks' treasury portfolios. Analysts said the easing of IFR requirements for banks could free up capital and improve flexibility in treasury management, while the harmonisation of rules across different regulated entities may improve regulatory clarity and compliance efficiency.