

**Annex I**  
(Refer Clause 6.4)

## **Held for Trading (HFT)**

Held for Trading (HFT), which is a sub-category of Fair Value through Profit and Loss (FVTPL) shall consist of all instruments that meet the specifications for HFT instruments set out in the following clauses. All other instruments shall be excluded from HFT.

2. Banks shall only include those financial instruments in HFT when there is no legal impediment against selling or fully hedging it.
3. Banks shall fair value daily all HFT instruments and recognise any valuation change in the profit and loss account.
4. Any instrument that a bank holds for one or more of the following purposes shall, when it is first recognised on its books, be designated as a HFT instrument, unless specifically otherwise provided for in clause 2 or 7:
  - a) short-term resale;
  - b) profiting from short-term price movements;
  - c) locking in arbitrage profits; or
  - d) hedging risks that arise from instruments meeting (a), (b) or (c) above.
5. The following instruments shall be included in HFT, unless specifically otherwise provided for in clause 2 or 7:
  - a) instruments in the correlation trading portfolio<sup>36</sup> ;

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<sup>36</sup> Banks in India are not expected to hold correlation trading portfolios.



- b) instruments that would give rise to a net short credit or equity position in the banking book<sup>37,38</sup>; or
- c) instruments resulting from underwriting commitments, where underwriting commitments refer only to securities underwriting<sup>39</sup>, and relate only to securities that are expected to be actually purchased by the bank on the settlement date.

6. Any instrument which is not held for any of the purposes listed in clause 4 at inception, nor seen as being held for these purposes according to clause 5, shall not be assigned to HFT.

7. The following instruments shall not be included in HFT category:

- a) unlisted equities and equity investments in subsidiaries, associates and joint ventures;
- b) instruments designated for securitisation warehousing;
- c) direct holding of real estate and derivatives on direct holdings of real estate;
- d) equity investments in a fund, unless the bank meets at least one of the following conditions:
  - i. the bank is able to look through the fund to its individual components and there is sufficient and frequent information, verified by an independent third party, provided to the bank regarding the fund's composition; or
  - ii. the bank obtains daily price quotes for the fund and it has access to the information contained in the fund's mandate or in the national regulations governing such investment funds;

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<sup>37</sup> A bank will have a net short risk position for equity risk or credit risk in the banking book if the present value of the banking book increases when an equity price decreases or when a credit spread on an issuer or group of issuers of debt increases.

<sup>38</sup> Short position is not allowed except in permitted derivatives and Government Securities.

<sup>39</sup> Please also refer to [Reserve Bank of India \(Financial Services provided by Banks\) Directions, 2016](#), as amended from time to time.



- e) derivative instruments and funds that have instrument types specified from (a) to (d) above as underlying assets; or
- f) instruments held for the purpose of hedging a particular risk of a position in the types of instruments specified from (a) to (e) above.

8. The following instruments shall be presumed<sup>40</sup> to be in HFT unless specifically otherwise provided for in clause 2 or 7:

- a) instruments resulting from market-making activities;
- b) equity investments in a fund excluding those exempted from assignment to HFT in accordance with clause 7(d); or
- c) listed equities<sup>41</sup>.
- d) trading-related repo-style transaction<sup>42</sup> ; or

9. Banks shall have the option to deviate from the presumptive list specified in clause 8 according to the process set out below.

- a) If a bank believes that it needs to deviate from the presumptive list established in clause 8 for an instrument, it shall submit a request to Department of Regulation, RBI and receive explicit approval. In its request, the bank shall provide evidence that the instrument is not held for any of the purposes in clause 4.
- b) In cases where this approval is not given, the instrument shall be designated as HFT. Banks shall document any deviations from the presumptive list in detail on an on-going basis.

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<sup>40</sup> The presumptions for the designation of an instrument in HFT or outside HFT set out in this text will be used where a designation of an instrument in HFT or outside HFT is not otherwise specified in this text.

<sup>41</sup> Subject to supervisory review, banks shall have the option to exclude certain listed equities from HFT, for example legislated programmes and equity investment designated as AFS.

<sup>42</sup> Repo-style transactions that are (i) entered for liquidity management and (ii) valued at accrual for accounting purposes are not part of the presumptive list of clause 8.



### *Supervisory powers*

10. Notwithstanding the process established in clause 9 for instruments on the presumptive list, RBI may require the bank to provide evidence that an instrument in the HFT is held for at least one of the purposes specified in clause 4. If RBI is of the view that a bank has not provided enough evidence or if RBI believes the instrument customarily would not belong to HFT, it may require the bank to reclassify the instrument out of HFT, except if it is an instrument listed under clause 5.

11. RBI may require the bank to provide evidence that an instrument outside HFT is not held for any of the purposes of clause 4. If RBI is of the view that a bank has not provided enough evidence, or if RBI believes such instruments would customarily belong in the HFT, it may require the bank to assign the instrument to HFT.

### *Documentation of instrument designation*

12. A bank shall have clearly defined policies, procedures and documented practices for determining which instruments to include in or to exclude from HFT, ensuring compliance with the criteria set forth in this Annex, and taking into account the bank's risk management capabilities and practices. A bank's internal control functions shall conduct an ongoing evaluation of instruments both in and out of HFT to assess whether its instruments are being properly designated initially as HFT or outside HFT in the context of the bank's trading activities. Compliance with the policies and procedures shall be fully documented and subject to periodic (at least yearly) internal audit and the results shall be available for supervisory review.