

YTM for 10-year Maturity at 12.05 per cent

April 16, 1999

The Reserve Bank of India has indicated the yield to maturity (YTM) for valuation of central government securities for adoption by banks at 12.05 per cent for 10 years maturity for their balance sheet as on March 31, 1999. The Reserve Bank has also announced YTM for maturities of over 10 years up to 20 years and beyond.

In a circular issued on April 15, the Reserve Bank has indicated the yields as on March 31, 1999 for securities of maturity between zero and 20 years and beyond as under:

No. of Years	YTM(%)
0	7.65
1	10.07
2	11.00
3	11.17
4	11.32
5	11.50
6	11.63
7	11.74
8	11.84
9	11.94
10	12.05
11	12.13
12	12.18
13	12.24
14	12.29
15	12.33
16	12.37
17	12.40
18	12.44
19	12.47
20 and beyond	12.50

The Reserve Bank has advised banks that the yields indicated by it may be applied to Central government securities other than 6 per cent Capital Indexed Bonds 2002. The 6 per cent Capital Indexed Bonds should be valued at cost. Further, it has reiterated that any net appreciation in the value of securities on account of the method of valuation indicated by the Reserve Bank should be ignored, while the net depreciation should be fully provided for. It has also advised banks that have adopted a more prudent method of valuation of securities than the one suggested by the Reserve Bank to continue with the practice followed by them.

According to the circular, the yields indicated by the Reserve Bank should also apply to State Government securities and Government Guaranteed securities. For valuation of PSU bonds the following method has been prescribed:

Taxable non priority sector PSU bonds	2 per cent above YTM
Tax free non priority sector PSU bonds	1 per cent below YTM
Tax free priority sector PSU bonds	2 per cent below YTM
Taxable priority sector PSU bonds	YTM rates on Government securities

Valuation method for other securities such as shares, debentures, units of mutual funds, investment in subsidiaries and remain unchanged. As regards valuation of other unquoted securities banks should uniformly follow the YTM method for arriving at valuation of unquoted securities.

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