

## **RBI Press Release**

### **Report of the Committee for Redesigning of Financial Statements of Non-Banking Financial Companies (October 4, 1999)**

A Committee was formed by Reserve Bank of India with Shri V.S.N. Murty, Chief general Manager-In-Charge of the Department of Non-Banking Supervision (DNBS) as Chairman and Shri A.K. Ghosh, Deputy General Manager, DNBS as Member-Secretary with S/Shri S.P. Chhajed, President – Indian Institute of Chartered Accountants of India (ICAI) and other senior functionaries of ICAI, namely, A.C. Shah, H.N. Motiwalla, V.C. Darak, A.K. Bhattacharyya, Dr. A. Chander and S. Bandyopadhyay (Retd) Chief General Manager of the Reserve Bank as members, to explore the possibility of redesigning the present formats of the financial statements being prepared by the NBFCs. The need for separate format, besides being one of the recommendations of the Expert Group on Designing the Supervisory framework for NBFCs (Khanna Committee), was being felt for long since the present formats under schedule VI to the Companies Act, are essentially designed for non-financial companies and the risks associated with the activities of the financial companies. The Committee has submitted its Report to the Reserve Bank on September 30, 1999.

The revised formats proposed by Committee broadly follow the existing formats prescribed under the Companies Act with additional disclosures in respect of maturity profile of assets and liabilities, sector-wise concentration of assets and liabilities, details in respect of overdue loans and other credits, non-performing assets and provisioning thereagainst, valuation of investments, etc. as schedules to the main balance sheet and profit and loss accounts; formats for these additional schedules have been provided in the Report. The Committee has further recommended that:

- a) The suggested formats, on adoption, be made applicable from the financial year 1999-2000 and onwards to all those NBFCs which are required to apply to the Reserve Bank for registration under the provisions of the Reserve Bank of India Act, 1934.
- b) In respect of companies having non-financial business also as part of their business activities, separate schedules in respect of such activities need to be annexed to the main balance sheet and profit and loss account.
- c) For the purpose of classifying a company as a financial company, the companies having 40 per cent of the tangible assets as financial assets, will be recognised as NBFCs and will, therefore, be required to compile their financial statements in the proposed formats.
- d) In addition to the suggested disclosures in respect of the risk profiles and requirement of prudential norms, the companies will be providing further information in terms of the present regulatory requirements as Annexures.

The Reserve Bank has decided to obtain the views of the Department of Company Affairs, Government of India on the proposed format and also circulate the Report among the members of the Informal Advisory Group on NBFCs constituted by the Reserve Bank which includes representatives of the associations of NBFCs as members, for the benefit of their suggestions on

the proposed formats. The Report has also been placed on the RBI website ([url: http:// www.rbi.org.in](http://www.rbi.org.in)). The Reserve Bank will take a final decision on the recommendations of the Committee after considering the suggestions received.

### **Verma Panel Report Released (October 4, 1999)**

The Working Group on Restructuring Weak Public Sector Banks submitted its report to the Governor, Reserve Bank of India, today. The Working Group was set up by the Reserve Bank of India in consultation with the Government of India, in February 1999, under the Chairmanship of Shri M.S. Verma, former Chairman, State Bank of India, and presently, Honorary Adviser to Reserve Bank of India. The other members were Shri K.R. Ramamorrhthy, Chairman, Vysya Bank Ltd., Shri M.M. Chitale, Chartered Accountant, Shri P.K. Choudhury, Managing Director, ICRA Ltd., Shri J.R. Prabhu, former Executive Director, Reserve Bank of India, and Dr. Sushil Chandra, former Director, International Management Institute. Shri C.R. Murlidharan, General Manager, Reserve Bank of India, was the Member Secretary.

Full text of the Report along with a summary is available on the website of the Reserve Bank of India ([url: http:// www.rbi.org.in](http://www.rbi.org.in))

The Report has been sent to the Government of India. The Reserve Bank of India will process the recommendations of the Group in consultation with the Government.

### **RBI announces Guidelines for Gold Deposit Scheme (October 5, 1999)**

The Reserve Bank of India today announced detailed guidelines for the Gold Deposit Scheme. As per the guidelines, banks authorised by the Reserve Bank to deal in gold and have the required infrastructure for managing the scheme, expertise/experience in gold business and proper risk management systems may launch the Gold Deposit Scheme. Each bank will, within the framework set out by the Reserve Bank guidelines, devise a scheme in accordance with its own assessment of the market. Banks proposing to introduce a gold deposit scheme will need to take the Reserve Bank approval for introducing the scheme.

It may be recalled that with a view to mobilising a portion of the privately held stock of gold in the country and putting it to productive use, the Finance Minister had announced the introduction of a Gold Deposit Scheme in the budget for 1999-2000. The Scheme seeks to provide depositors the opportunity to earn interest on their idle gold holdings along with the benefits of safety and security of holding gold without any cost. The Government of India has since issued various enabling notifications.

According to the broad guidelines issued by the Reserve Bank today, the scheme will be open for investment by resident Indians. Under the scheme, banks will either issue a passbook or a certificate or bond which will be transferable by endorsement and delivery. Banks will be free to fix their own interest rates on the gold deposit scheme. The scheme will have maturity range from 3 to 7 years with an initial lock-in period to be specified by each bank.

Gold under the scheme will be accepted in scrap form only. The banks will first subject the

tendered gold to preliminary assay by a non-destructive method. After the preliminary assay, the depositor will have option to withdraw the tender depending upon the results. The deposit will be repaid in the form of standard gold bar of 0.995 fineness or in rupees equivalent to the price of gold as on the date of maturity at the option of the depositor. The depositor will have to exercise the option at the time of application or once during the tenure of the bond.

Rupee loans will be available against collateral of the gold deposits. The scheme will be open-ended and will be available on tap. To ensure wide reach for the scheme, banks which fulfil these criteria but have limited branch network, may appoint other banks having the necessary infrastructure for collection, storage and transportation of gold as collection agents only.

For the purpose of operation of the scheme, the Reserve Bank/Government have also given certain facilities to the banks. These include exemption from customs duty for export/import of gold scrap/refined gold, payment of foreign exchange for refining and such other charges, exemption from cash reserve ratio on the liabilities under the Scheme and to hedge the price risk arising out of gold price movement through forward contracts, or access international exchanges.

Details of the guidelines for operation of the Scheme are :

**Eligibility :** Resident Indians (individuals, HUF, trusts, companies) can invest in the scheme. Joint tenders may be accepted and more than one certificate issued, in the case of joint holders.

**Issue of passbook/certificate :** Under the scheme, banks can either issue a passbook or a certificate/bond which will be transferable by endorsement and delivery. The banks will ensure to issue the passbook or certificate for deposit of gold to the depositor within 90 days from the date of receipt of gold. The passbook/ certificate will indicate, inter alia, the name of the depositor/s, quantum of gold deposit in grams, the date of deposit, the date of maturity and the interest payable on the deposit.

**Nomination :** The facility will be allowed on the lines of the other usual rupee deposit schemes.

**Lock-in Period :** There will be an initial lock-in period which will be decided by the banks.

**Interest Rates :** Individual banks will be free to fix the interest rates in tune with their own costing considerations. Interest will be payable in cash at fixed intervals or at maturity as decided by the bank.

**Maturity :** The deposit may be made available within a maturity range from three to seven years. Delivery at maturity will be in standard gold bar form of . 995 fineness or in rupees equivalent to the price of gold as on that date at the option of the depositor, to be exercised at the time of application or once during the tenure of the bonds.

**Premature Payment/Encashment :** Premature payment/encashment in cash equivalent to the price of gold as on the date of encashment or in gold would be allowed after the initial lock-in period. Banks may decide the penalty/swap cost to be levied on such withdrawals depending on the period for which the deposit has run.

**Loans against Gold Deposits :** Rupee loans may be given against collateral of gold deposits.

**Operations of the Scheme :** The operation of the Scheme will be open-ended, available on tap until further notice.

**Assay :** Gold (bars, coins, jewellery, etc.) will be accepted in scrap form only. There will be a preliminary assay to ascertain gold content/caratage in jewellery by a non-destructive technique such as X-Ray/karatmeter followed by a fool-proof method like fire assay. The depositor may be given the option to withdraw the tender depending on the results of the preliminary assay. If the option to withdraw is exercised, banks may consider levying a nominal charge to defray the cost of preliminary assay. For assaying, banks may enter into arrangements with existing units, or use the assaying infrastructure being jointly set up by the designated banks.

**Gold Import/Export :** For the purpose of the scheme, banks have been allowed to export/import of gold scrap/ refined gold which will be exempt from Customs duty. Banks have also been permitted to make payment in foreign exchange for refining charges, including cost of insurance, transportation, etc., subject to Exchange Control regulations.

**Deployment of Gold :** Banks may deploy gold mobilised under the scheme as gold loans to domestic jewellery industry, gold loans to jewellery exporters, outright sale of gold domestically, and sale of gold to other nominated banks.

**Risk Management by Banks :**

Banks would be required to put in place suitable risk management mechanisms to hedge the price risk arising out of gold price movements. Banks are permitted to enter into forward contracts in India for buying and selling of gold with only those banks which are authorised by the Reserve Bank to import gold. Banks have also been allowed to access the international exchanges, London Bullion Market Association or make use of over the-counter contracts to hedge exposures to bullion prices subject to the Exchange Control regulations. Banks would need to put in place suitable accounting systems, internal control and audit mechanisms and disclosure norms to cover all its operations in respect of gold including the Gold Deposit Scheme.

**Reserve Requirements :** Authorised banks will be exempted from maintaining the cash reserve ratio on liabilities under gold deposits mobilised in India. In view of multiple prescriptions, however, banks will have to maintain a minimum CRR of 3.0 per cent on total net demand and time liabilities (including zero CRR liabilities). The authorised banks will have to maintain SLR of 25.0 per cent on liabilities under the Gold Deposit Scheme. It may be noted that under the present law, banks have to maintain a minimum of 25.0 per cent SLR.

**RBI issues Guidelines for Risk Management Systems in Banks (October 21, 1999)**

The Reserve Bank of India has today issued detailed guidelines for risk management system in banks. The guidelines broadly cover management of credit, market and operational risks. The broad framework for management of liquidity and interest rate risks were covered by the

guidelines on Asset-Liability Management (ALM) system, which were issued to banks earlier. The guidelines on risk management now being issued together with the ALM guidelines are purported to serve as a benchmark to the banks, which are yet to establish an integrated risk management system.

According to the guidelines, the management of credit risk should receive the prime attention of the top management. The banks should put in place the loan policy, approved by the board of directors covering the methodologies for measurement, monitoring and control of credit risk. Banks should also evolve comprehensive risk rating system that serves as single point indicator of diverse risk factors of counterparties in relation to credit and investment decisions. The Reserve Bank guidelines have stated that the activities of Asset-Liability Management Committee and Credit Policy Committee for management of credit and market risks need to be integrated.

The guidelines also require banks to evaluate portfolio quality on an on-going basis rather than near about balance sheet date. The proposals for investment should be subjected to the same degree of credit risk analysis as loan proposals. The risk evaluation should also include total exposure, including investments. As regards off-balance sheet exposures, the current and potential credit exposures may be measured on a daily basis. Banks have also been asked to evolve a suitable framework to provide a centralised overview of the aggregate exposure on other banks, endeavour to develop an internal matrix that reckons the counterparty and country risks. To manage liquidity risk, banks have been asked to consider putting in place prudential limits on inter-bank borrowings, especially call fundings, purchased funds, core deposits to core assets, off-balance sheet commitments, swapped funds, etc.

Banks have been asked to evaluate liquidity profile under bank-specific and market crisis scenarios. They have also been asked to prepare contingency plans to measure the ability to withstand sudden adverse swings in liquidity conditions.

Banks have been asked to fix a definite timeframe for moving over to Value at Risk (VaR) and duration approaches for measurement of interest rate risk. The guidelines also mention that it would be desirable to adopt international standards on providing explicit capital cushion for the market risk to which banks are exposed. Banks should also adopt proper systems for measurement, monitoring and control of operational risk that is emerging in the wake of phenomenal increase in the volume of financial transactions. Banks operating in international markets have been asked to develop by March 31, 2001 suitable methodologies for estimating and maintaining economic capital. The other banks have been asked to formulate a medium-term strategy to comply with these requirements.

The guidelines on risk management have placed the primary responsibility of laying down risk parameters and establishing the risk management and control system on the board of directors. They have, however, stated that the implementation of the integrated risk management could be assigned to a risk management committee or a committee of top executives that reports to the board. The risk management guidelines also require banks to constitute a high level credit policy committee to deal with issues pertaining to credit sanction, disbursement and follow-up procedures and to manage and control credit risk on a whole bank basis. The Reserve Bank has

further asked banks to concurrently set up an independent credit risk management department to enforce and monitor compliance of the risk parameters and prudential limits set by the board/credit policy committee.

The Reserve Bank has, however, stated that due to the diversity and varying size of balance sheet items between banks, it may neither be possible nor may it be necessary to adopt uniform risk management system. The design of risk management framework should therefore, be oriented towards the bank's own requirement dictated by the size and complexity of business, risk philosophy, market perception and the existing level of capital. In other words, banks can evolve their own systems compatible with the type and size of operations as well as risk perception. While doing so, banks may critically evaluate their existing risk management system in the light of the guidelines issued by the Reserve Bank and put in place a proper system for covering the existing deficiencies and requisite upgradation.

The Reserve Bank has also asked to place the circular together with the guidelines before the board of directors at its next meeting. The bank should identify the gaps in the existing risk management practices and the policies and strategies for complying with the guidelines. The bank should review the board the progress in implementation of the guidelines at half-yearly intervals.

The detailed guidelines have been placed on the RBI website at [www.rbi.org.in](http://www.rbi.org.in)