

Implementation of Financial Standards and Codes: Indian Perspective and Approach *

Y.V. REDDY

In this paper it is proposed to describe the Indian perspective and approach in regard to the implementation of international financial standards and codes advocated by the Financial Stability Forum (FSF). The Indian efforts in this direction also seek to complement and support the ongoing initiatives of the G-20 aimed at encouraging implementation of standards and codes among member countries.

The paper is schematized as follows. Section I explains India's stand on global initiatives for implementation of standards and codes. While Section II narrates India's association with global efforts in evolving and promoting financial standards and codes, Section III describes the Indian approach to the implementation. Section IV mentions the institutional arrangements that have been put in place to guide the process of implementation. Section V provides an account of the work processes followed by Advisory Groups in the course of preparation of Reports. Section VI indicates the current status, while Section VII touches on the plans for following up on the submission of Reports. Section VIII brings out some highlights of Indian experience so far.

I. India's Stand

1.1 India is fully supportive of the need to observe certain minimum universally accepted standards in areas relevant to the maintenance of stability in the international monetary system, including increased transparency in formulation and implementation of monetary and financial policies and improvements in dissemination of relevant data. The establishment of a high-powered Standing Committee on International Financial Standards and Codes (Standing Committee) underscores India's commitment to this international enterprise. At the same time, India has been voicing, in the international fora, some of its concerns regarding the manner of international financial institutions spearheading the implementation and assessment of codes and standards. India advocates a voluntary approach, fair, equitable, and continuous process taking duly into account the institutional and legal structure and stage of development in different countries.

1.2 Although the notion of a code of good practices is intuitively appealing, the temptation to prescribe universally valid model codes which do not allow for differences in institutional development, legislative framework and, more broadly, different stages of development must be avoided. Sometimes there is a tendency to recommend the practices of major industrial countries to developing country environments without adequate consideration being given to a country's stage of development and its ground realities.

1.3 Moreover, it stands to reason that the accent should be on voluntary adoption and gradualism rather than a big bang. In fact, the process may, in any case, be a medium-term one and hence one should not look for instant compliance. Basle Core Principles of Banking Supervision offers an interesting example of how a standard attains a near universal acceptance based on voluntary participation and country ownership. It is also important that the manner in which these international standards are monitored does not degenerate into categorizing

countries as ‘performers’ and ‘non-performers’. In other words, the transformation of a best practice goal should not result in premature conditionality for countries that approach the Fund for balance of payments support.

1.4 The extent, pace and sequencing should ideally be left to the country authorities. In keeping with this spirit, it has been held that the International Monetary Fund (IMF) may furnish the ROSCs (Reports on Observance of Standards and Codes) in respect of individual countries only with the countries’ specific permission. The release of Article IV reports should also be left to the judgement of individual governments. This is because the goal of transparency could best be served by a balanced and symmetric evaluation of data as between the authorities and the private sector.

1.5 It must also be added that the plethora of codes, standards and principles could be overwhelming and also highly demanding of manpower and financial resources. They also have a potential to become overly intrusive vis-à-vis national authorities. In any case some prioritisation of Codes for considering implementation is inevitable in respect of each country. There is a strong case for undertaking or fostering more intensified research on the relationship between implementation of standards and macroeconomic and financial stability.

1.6. Work on standards and codes is evolving in relevant interational fora and priorities for implementing them would have to vary from country to coutry. In this regard, the potential for self-assessment on the part of individual countries needs to be explored. Besides being cost-effective, such an approach would also greatly facilitate country-ownership.

1.7. Some of the other serious concerns that deserve attention in this regard pertain to the specificity and the source of financial difficulties that might have to be adequately reckoned in individual cases. Since financial crises can have multiple causes, overemphasising financial standards could detract attention from other policy priorities. The relative importance of financial standards in crisis prevention must also be adjudged from the standpoint of the relative openness of the economy’s capital account and in this sense the “one-size-fits-all” approach may have to be eschewed.

1.8 Since the primary motive for having standards is to catalyze orderly capital flows, while ensuring financial stability, greater consultation with the private sector in evolving and prioritizing of core standards is of utmost necessity. All standards and codes are not equally relevant to all segments of private sector and further they do tend to evolve over a period reflecting concerns of both public policy and market participants.

1.9 It is gratifying to note that currently there is a better appreciation of India’s stand in the international fora as compared with the past.

II. India’s Association with the Global Efforts in fostering International Standards and Codes

2.1 India has been closely associated with various standard setting bodies and has been taking active part in the work of several key international fora devoted to the task of developing

and promoting implementation of financial standards and codes. Although India is not a member of the Financial Stability Forum (FSF)¹, it was one of the countries specially requested to help the Forum in Task Force on the Implementation of Standards and to participate in the Joint Committee Group meeting. The Task Force was set up to explore key issues relating to standards/ codes/core principles and consider the strategy for fostering the implementation of international standards relevant for a sound financial system.

2.2 The Reserve Bank is also represented at the Follow Up Group on Incentives for Implementation of Standards instituted by the FSF following submission of the Task Force Report. The Group has been ascertaining how various elements of market and official incentives could best reinforce one another within the framework of the overall strategy to foster implementation of standards and, for this purpose, engages in a dialogue with a cross section of relevant market participants.

2.3 The Reserve Bank officials worked closely with the Basel Committee on Banking Supervision (BCBS). In 1997, in consultation with the supervisory authorities of a few non G-10 countries including India, the BCBS drew up the 25 'Core Principles for Effective Banking Supervision' aimed at guiding supervisory authorities seeking to strengthen their current supervisory regime.

2.4 From its inception, India was also represented on the Group on Joint Task Force on Securities Settlement Systems constituted by the Committee on Payment and Settlement Systems (CPSS) and the International Organisation of Securities Commissions (IOSCO).

The CPSS and IOSCO have since released the report of the Task force in January 2001 for public consultation. Based on the comments received, the Task Force will develop the final recommendations.

2.5 As a member of the Core Principles Liaison Group (CPLG) constituted by the Basel Committee on Banking Supervision (BCBS), the Reserve Bank has been attending the meetings of the Group and actively contributing to the discussions.

2.6 The Reserve Bank is also represented in the Working Group on Capital (WGC) set up by the CPLG. Recently, during February 6 - 9, 2001, the Reserve Bank of India hosted the meeting of the Group in Delhi to discuss the salient features of the second consultative paper issued by the Basel Committee. The meeting was attended by 26 representatives of supervisory agencies from several non G-10 countries as well as from international financial agencies.

2.7 India is one of the countries that has sought participation in the joint IMF-World Bank Financial Sector Assessment Programme (FSAP). As part of the Reports on Observance of Standards and Codes (ROSCs), India's compliance in respect of five standards and codes has already been assessed, viz., Monetary and Financial Policy Transparency, Banking Supervision, Securities Market Regulation, Payment and Settlement System and Corporate governance.

2.8 Furthermore, the professional expertise in the Reserve Bank of India has been made available to IMF/World Bank in their FSAP exercises in other countries.

III. Indian Approach

3.1 The Indian approach to implementation of financial standards and codes is based on the efficiency-enhancing elements of the standards and codes, and on the need to consider them as part of process of institutional development in the country, while not ignoring their relevance to domestic as well as international financial stability. Thus, they are viewed as an integral part of the process of economic reform, most appropriate to the country's needs. The emphasis is on creating awareness to promote adoption by the relevant official agencies, self regulating bodies and market participants rather than prescribing compliance at the instance of a central authority.

3.2 The Indian approach to the implementation of standards and codes is noteworthy in that it follows a systematic process. The process consists of the initial recognition, identification and taking on record of standards and codes in relevant areas. This is followed by in-depth assessment of independent experts on issues pertaining to the present status of applicability, relevance and the existing degree of compliance, the feasibility of compliance and the earmarking of the possible time frame for transition, given the prevailing legal and institutional practices. It is also common to seek comparison of the levels of adherence in India vis-à-vis industrialised and emerging economies, particularly to understand India's position and to prioritise actions on some of the more important codes and standards. The process seeks to map out a comprehensive course of possible actions for achieving the best practices. This approach is put in the public domain through publication of Reports on each of the selected standards and codes.

3.3 The next stage involves making efforts for the widest possible dissemination of expert opinion on the subject in form of reports mentioned and by means of outreach programmes like seminars and workshops. The objective is to obtain involvement and stimulation of interest among public authorities and other stake holders in the debate and garner a higher level of general awareness on the subject. This is to be followed by invitation of and consideration of inputs and feedback from relevant public and private sector organisations to enhance the sense of involvement and build confidence. Such a participative and consultative approach is advocated to secure convergence of viewpoints and, hence, favourable public disposition towards the necessity of change.

IV. Institutional Arrangements

Standing Committee

4.1 In order to facilitate positioning of international financial standards and codes in relevant areas of the financial system in India and to guide the overall process of implementation of appropriate changes in respect to various segments of the financial system, the Reserve Bank in consultation with Government of India, in December 1999, constituted a 'Standing Committee on International Financial Standards and Codes' under the Chairmanship of Deputy Governor, Reserve Bank of India and Secretary, Economic Affairs, Government of India as Alternate Chairman. The Committee could co-opt members depending on the subject under consideration.

4.2 The Committee has been enjoined with the responsibility of identifying and monitoring developments in global standards and codes being evolved especially in the context of the international developments and discussions as part of the efforts to create a sound international Financial Architecture, considering all aspects of these standards and codes to Indian financial system. The Committee has also been asked to consider plotting a road map for aligning India's standards and practices as necessary and desirable in the light of evolving international practices, periodically reviewing the status and progress in regard to the codes and practices; and reaching out its reports on the above to all concerned organisations in public or private sectors.

4.3 The Standing Committee by itself will not take a view on the Standards and Codes and it will disseminate views expressed on the subject mainly on the basis of the Advisory Groups constituted by it in different subject areas. The Standing Committee will identify action points that may arise out of the views expressed and also make a mention of these to the concerned authorities viz., Government, Reserve Bank of India, Securities and Exchange Board of India (SEBI) etc., thus acting as a catalyst in the whole process, while leaving it to the concerned institutions to consider appropriate measure. The Committee will no doubt make arrangements to track the progress in implementation.

Advisory Groups

4.4 The Advisory Groups constituted by the Standing Committee on International Financial Standards and Codes in ten core subject areas pertaining to the financial system are entrusted with the task of studying, in detail, the present status of applicability and relevance and compliance of relevant standards and codes, reviewing the feasibility of compliance and the time frame over which this could be achieved given the prevailing legal and institutional practices, comparing the levels of adherence in India vis-à-vis those in industrialised and also emerging economies, particularly to understand India's position and prioritize actions on some of the more important codes and standards and chalk out a course of action for achieving the best practices.

4.5 Out of the set of twelve subjects (actually eleven as Accounting and Auditing are taken together) areas for which standards and codes that have been prescribed by international financial institutions and other standard setting bodies pertaining to the financial system, the Standing Committee has so far identified ten core subjects for immediate attention and assessment by Advisory Groups. These are, Transparency in Monetary and Financial Policies, Data Dissemination, Payments and Settlement System, Banking Supervision, Securities Market Regulation, Accounting and Auditing, Fiscal Transparency, Insurance Regulation, Bankruptcy Laws and Corporate Governance. The twelfth area, namely, 'Market Integrity' associated with the forty recommendations of the Financial Action Task Force (FATF) on money laundering is not being presently looked into by the Standing Committee.

4.6 It may need to be mentioned that all Advisory Groups are chaired by eminent experts not generally holding official positions in Government or other regulatory bodies. While the Chairmen of these Advisory Groups were identified and nominated by the Standing Committee, taking into account the experience and expertise, the choice of members of these Advisory Groups, was completely left to the Chairmen of Advisory Groups. The members are generally non-official experts in relevant subject areas. The Groups have, however, the option of including

officials from the Government, the Reserve Bank, SEBI, etc., as special invitees. Such officials help in providing inputs on the understanding of extant position relating to the relevant standards and codes and also the steps under way towards improvements. This arrangement keeps the Advisory Groups outside the sphere of official influence and allows them to make critical assessment of relevance as well as state of compliance with standards and codes and give unbiased recommendations with regard to the feasibility of compliance and the necessity of achieving best practices in the areas covered by them.

4.7 In order to facilitate exchange of information and expertise on matters of mutual interest, the Advisory Groups have the option of having interactions/ consultations amongst themselves and many did exercise the option. The Advisory Groups may also jointly deliberate on overlapping issues in certain subject areas to evolve a consistent approach. In finalising its Report, the Standing Committee would, however, attempt to consolidate these overlapping areas. The Reports of the Advisory Groups are made public, as soon as they are submitted to the Standing Committee.

4.8 The Standing Committee also periodically reviews the progress of Advisory Group and is required to review its own status after the completion of one year and report to the Government/RBI. The secretarial support to the Standing Committee is provided by the Reserve Bank.

V. Work Processes

5.1 In view of the varied nature of subject areas, each Advisory Group decided to design its own methods and processes of work. Thus, some Groups mounted special studies or technical papers, some divided the work of preparing basic technical papers among each of the members and most depended heavily on the background material collected and analysed by professionals in the Reserve Bank. While an Advisory Group gave an interim report, the general preference turned out to be in favour of final reports, sometimes in parts submitted sequentially.

5.2 In some of the subject areas, concerned governmental or regulatory bodies had already constituted some study groups and hence it was argued on occasions that the Advisory Groups are duplicating such efforts. In such cases, it became necessary to clarify that the work of the Advisory Groups is without prejudice to any other official and non-official initiatives, and that the work is not meant to be intrusive. It also became necessary to encourage the Advisory Groups to take into account in their deliberations such parallel, though partial, efforts and provide appropriate inputs to such efforts whenever sought. The process was made easier in several cases since one or more members of relevant Advisory Group happened to be so eminent as to be involved in several of the initiatives.

5.3 Some Advisory Groups had to reckon with the fact that their perception of compliance with international standards differed from the official stance of concerned authorities, i.e., the regulator or the government body. The non-official status of the Advisory Groups has enabled them to consider the official stance but make its own independent assessment of degree of compliance.

5.4 In some of the Advisory Groups there has been a view in favour of making recommendations on substantive policy-issues, while the mandate was, say, on transparency. There have also been occasions when the Group tended to comment on functioning of official bodies in the context of standards.

5.5 In the preparation of their respective Reports, most Advisory Groups have also been studying and reviewing international experience in various subject areas. In particular, the Report of the Advisory Group on Monetary and Financial Policies took comprehensive account of extant institutional arrangements and practices in five countries namely, the UK, USA, Australia, New Zealand and South Africa. The Advisory Group on Bankruptcy Laws has examined the existing Acts on insolvency and bankruptcy in the US and selected countries in Europe and Asia. The Advisory Group on Accounting and Auditing has conducted in depth studies of the International Accounting Standards (IAS), the US Generally Accepted Accounting Principles (US GAAP) and the comparative structure of Accounting Standards in India and standards issued by the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI).

5.6 In the course of their work, the Advisory Groups have also been having the benefit of discussions with market participants, members from professional bodies as well as academics. The Advisory Group on Insurance Regulation met the officials of Life Insurance Corporation of India and the Advisory Group on Fiscal Transparency had extensive discussions with all State Finance Secretaries and the Office of Comptroller and Auditor General of India. Advisory Groups have, in most cases, co-opted market participants and members from professional bodies as special invitees. For example, the Advisory Group on Payments and Settlement System has special invitees from the National Stock Exchange (NSE) and a member from academia. The Advisory Group on Accounting and Auditing has a member from the Institute of Chartered Accountants of India (ICAI) and other well known market participants and practicing professionals. Similarly, the Advisory Group on Securities Market Regulation and the Advisory Group on Banking Supervision has eminent experts from the Housing Development Finance Corporation (HDFC) and ICICI Bank. The Advisory Group on Bankruptcy Laws also includes practicing professionals and eminent academics, including the former Director of National Law School as Chairman of the Group.

5.7 The Advisory Groups were encouraged to prepare in tabular form the given international standard/code, current status in India and the corresponding recommendation of the Group as a supplement to the narrative to facilitate easy reference.

5.8 As and when the Reports are received by the Standing Committee, they are placed on the Reserve Bank website for immediate and wider public dissemination.

VI. Current Status

6.1 As of now, the reports/part of reports in respect of the following subjects have already been received by the Standing Committee: Transparency of Monetary and Financial Policies (Final), Payment and Settlement System (Parts I and II), Insurance Regulation (Final - Parts I and II), Banking Supervision (Part I), Accounting and Auditing (Final), Bankruptcy Laws

(Interim). All Reports have been placed on the RBI website <www.rbi.org.in> and are in the process of being published for wider dissemination and discussion.

6.2 The 'Foreword' to the first in these series of Reports on 'Transparency in Monetary and Financial Policies' is presented as an [Appendix](#) to this paper. As may be seen, the effort is to make the readers aware of what standards and codes are and their importance for national economies in the current milieu.

VII. Plans for follow up

7.1 The submission of the Reports by Advisory Groups would be followed up in accordance with the decisions of the Standing Committee meeting held on September 20, 2000.

7.2 The Standing Committee would consolidate the Reports of all Advisory Groups and prepare its own report containing executive summaries/highlights of all the reports, action points requiring attention by regulatory authorities/agencies concerned with the follow up. The Standing Committee report also would be widely disseminated to the public as the Advisory Group reports.

7.3 The Advisory Group would be requested to help organise a seminar/ workshop for a day in an appropriate institution/centre for creating awareness and this would help the Standing Committee to concretise the views on recommendations.

7.4 For each Report, a mailing list covering both public sector and private sector organizations, international institutions and experts, both local and international, would also be identified and finalised in consultation with the Chairman of each Advisory Group. The Standing Committee would request specific comments/feedback on the recommendations of the Advisory Group from these addressees.

7.5 The Standing Committee would prepare an annual review of status and progress regarding compliance with and implementation of standards and codes and submit it to the Ministry of Finance.

VIII. Highlights

8.1 The Indian position which recognises the significance, scope, limits and contextual degree of relevance of international financial standard and codes has been considered by a broad spectrum of experts, intellectuals and market participants as reasonable.

8.2 Second, the need to assess Indian standards and codes with international benchmarks has elicited broad support.

8.3 Third, the impact of the process could often be indirect and not necessarily direct and instant. For example, the Secretary, Department of Company Affairs, in a recent address to the Accountants and Auditors referred to the work of the Standing Committee and related it to the ongoing amendments to the Company Law.

8.4 Fourth, the participative processes also have a multiplier effect in terms of several means by which the codes and standards are disseminated. For example, the widely read Economic Survey, 2000-01 of the Government of India, released as part of set of Budget Documents, makes a detailed reference to the subject (vide Box 6.4 on International Financial Standards and Codes). There have also been extensive references to this in several publications of the Reserve Bank.

8.5 Fifth several prominent intellectuals, professionals, and market participants contributed to the process of benchmarking and identifying gaps and they participated in the exercise in a purely honorary capacity as a national endeavour.

8.6 Sixth, such a process brought out the possible differing views between official bodies or authorities and domestic independent opinion as regards the extent of compliance with such codes and standards. It is considered necessary to recognise this and try to arrive at a consensus.

8.7 Seventh, some concern on the part of official authorities to such an independent assessment is understandable, but could be significantly overcome through their participation as special invitees and the efforts of advisory group which have members of national standing.

8.8 Eighth, many areas of overlap among the areas covered by different Advisory Groups were observed. Also, each Advisory Group had to interact with several regulatory and standard setting bodies. The process thus becomes quite complex, especially when the jurisdictional issues come up.

8.9 Ninth, several standard setting bodies including professional associations and self-regulatory bodies of market participants involved with current practices have, on occasions, had concerns about the Advisory Groups' findings but special efforts by the Advisory Groups have helped assuage these concerns.

8.10 Tenth, the work of the Advisory Groups required substantial technical and professional inputs located in several agencies, public and private. These had to be pooled and collated.

8.11 Eleventh, the Advisory Groups have found it difficult to focus entirely on compliance issues since there is a preoccupation with immediate issues of operational significance to the market participants and such issues may be policy or procedural or may even be of short term relevance. The main focus has not been, however, lost sight of.

8.12 Twelfth, the enthusiasm for disclosure and transparency in public agencies is not matched by the eagerness to be transparent on the part of private sector. The private sector's participation in the process helped a better appreciation of the importance of disclosures.

8.13 Finally, four lessons from the exercise appear to be relevant. The process of implementation demands significant resources and is time-consuming. Moreover, most of the follow-up activities require some legislative changes. In the ultimate analysis, adoption of the

standards has to be driven by the self-interest of the country and attempts should be made towards harmony and ultimate convergence rather than mechanical compliance.

Appendix

FOREWORD

Introduction

We have great pleasure in placing in the public domain, the reports prepared by eminent experts of our country in various subject areas of the financial system. These reports have made critical assessment of India's status and compliance with prescribed international financial standards and codes and suggest means for achieving the best international practices. In view of the importance of the subject, and the far reaching initiatives that have been taken by the international community in the adoption and implementation of financial standards and codes, we would like to put forth a general overview of this enterprise, particularly, focusing on key concepts and the developments that have taken place in this area in the recent years. We also highlight the on-going efforts in India in this direction, expecting them to contribute in their own significant way in the overall task of promoting a sound and stable global financial system.

We would, however, like to emphasize that the recommendations contained in these reports are the product of independent evaluation and assessment of standards and codes undertaken by non-official experts, and do not reflect the views of the Reserve Bank or the Government of India or other concerned regulatory agencies.

The international community has emphasised the need for strengthening the architecture of the international financial system in the wake of the recent financial crises. The initiatives have been directed towards preventing the recurrence of such crises and safeguarding global financial stability. In this context of achieving a sound basis for domestic and international financial stability, the on-going efforts in development, adoption and implementation of international standards for the financial system are considered crucial.

What are Standards?

Standards set out by international financial institutions and other standard setting bodies are generally accepted as good principles, practices and guidelines for relevant areas in the financial system. Standards have developed mostly as a result of the recognition and understanding of the weaknesses that precipitated financial crises. Standards are classified by their degree of specificity and reckoned on the basis of their sectoral or functional attributes. They cover a broad range of areas in the financial system and are, therefore, interdependent or sometimes functionally overlapping.

Why are Standards Important?

Standards help to promote sound financial systems domestically and financial stability internationally. They play an important role in strengthening financial regulation and

supervision, enhancing transparency, facilitating institutional development and reducing vulnerabilities. Standards also facilitate informed decision making in lending and investment and improve market integrity and, thereby, minimize the risks of financial distress and contagion. Standards are not ends in themselves but a means for promoting sound financial fundamentals and sustained economic growth. The adoption of standards in itself, however, is not sufficient to ensure financial stability. The implementation of standards must fit into a country's overall strategy for economic and financial sector development taking into account the stage of development, level of institutional capacity and other domestic factors.

What is New about Standards?

The standards devised by standard setting bodies are widely accepted as promising benefits in strengthening financial systems and helping in achieving sustained economic growth. Standards also promote convergence of practices among countries in various areas of the financial system, thereby, allowing clear assessment methodologies for comparability across jurisdictions. For ease of implementation, standards are distinguished by their degree of specificity covering (i) principles or general fundamental rules that offer flexibility in implementation to suit country priorities and circumstances, (ii) practices that are more specific and demonstrate practical applications, and (iii) specific methodologies/ guidelines which provide detailed guidance on steps required for relative objective assessment of the degree of compliance. In providing this choice of prioritization and methodological guidance, countries can have effective implementation plans under different economic circumstances.

For Whom are Standards Relevant?

Standards serve many purposes and are of special interest to market participants. They can serve as a means of providing some kind of benchmark for market participants to operate efficiently. They are important to the regulators concerned with the financial system, central bank and Government as they are key components of efforts to strengthen domestic economic and financial systems and preserve financial stability.

What are the Key Standards?

The Financial Stability Forum (FSF) was initiated by members of G-7 in February, 1999 with the mandate to promote international financial stability by improving the functioning of markets and reducing systemic risk through information exchange and international cooperation in supervision and surveillance of financial markets. The FSF has drawn together various standard-setting bodies constituted by means of cooperation among central banks, international financial institutions, national authorities and international supervisory and regulatory bodies. The FSF has posted The Compendium of Standards, which serves as a common reference for various standards. This is basically an initiative of the Financial Stability Forum and is a joint product of the various standards setting bodies represented on the Forum. Currently there are 69 standards cited in the Compendium, which are organised under three broad headings and fifteen subject areas, viz., macroeconomic policy and data transparency (covering monetary and financial policy transparency, fiscal policy transparency, data dissemination and data compilation), institutional and market infrastructure (covering insolvency, corporate governance, accounting, auditing,

payment and settlement, market integrity and market functioning) and financial regulation and supervision (covering banking supervision, securities regulation, insurance supervision and financial conglomerate supervision).

Who are the International Standard Setting Bodies?

International standards setting bodies had existed for a long time, but in the light of the growing degree of global interdependence and linkages, the world economy can be exposed to potential threat of contagion from problems in financial markets. It has, therefore, become imperative to strengthen financial systems through intensified coordination and cooperation among regulatory bodies, international regulatory bodies and international financial institutions charged with fostering standards and codes. There are various international organizations which have made significant contribution to raising standards of soundness and risk-awareness in financial systems.

The International Monetary Fund (IMF) has developed international standards for data dissemination and transparency practices in fiscal, monetary and financial policies, and has contributed to the development of international standards for banking supervision.

Basle Committee on Banking Supervision (BCBS) has formulated the 'Core Principles of Effective Banking Supervision' which ensure best supervisory practices in the area of banking supervision.

Committee on Payment and Settlement System (CPSS) has advocated 'Core Principles for Systemically Important Payments Systems' that are aimed at enhancing the efficiency and stability of payment, clearing, settlement and related arrangements.

International Accounting Standards Committee (IASC), an independent private sector body, is charged with the responsibility of developing and approving International Accounting Standards (IAS).

International Association of Insurance Supervisors (IAIS) is responsible for setting standards that are fundamental to developing effective insurance regulation and supervisory practices.

International Organization of Securities Commissions (IOSCO) has established core standards for effective surveillance of international securities transactions and promotes integrity of markets through rigorous application of standards and effective enforcements against offences.

The Organization for Economic Cooperation and Development (OECD) promotes policies for efficient functioning of markets and encourages convergence of policies, laws and regulations covering financial markets and enterprises.

Standards Setting Bodies in India

In India, we have standard setting bodies which are, in practice, the national regulators, who have the legal authority to set and implement regulatory rules and procedures in the financial

sector. For example, the Reserve Bank of India (RBI) is responsible for regulation and supervision of banks and other financial institutions and money, foreign exchange and Government securities markets. The Securities and Exchange Board in India (SEBI) is charged with the duty to protect the interests of investors in securities and to promote the development of, and to regulate the securities market by measures as it deems fit. The Insurance Regulatory and Development Authority (IRDA) is entrusted with the task of protecting the interests of the policy holders, to regulate, promote and ensure orderly growth of the insurance industry and for matters therewith or incidental thereto. The Department of Company Affairs (DCA) of the Ministry of Law, Justice and Company Affairs, inter alia, provides legal framework for incorporation and proper functioning of companies, surveillance over the working of corporate sector to ensure financial health and compliance with statutory provisions, prescribing cost audit rules and appointment of cost auditors, investigation of complaints, coordination with other regulatory bodies such as other Government departments and autonomous institutions like SEBI, RBI and stock exchanges and monitoring the development of professional bodies i.e., Institute of Chartered Accountants of India (ICAI), Institute of Company Secretaries (ICS) and Institute of Cost and Work Accountants of India (ICWAI).

Further, we have self regulatory organizations such as the Indian Banks Association (IBA), Fixed Income Money Market and Derivatives Association of India (FIMMDA), Association of Merchant Bankers of India (AMBI), Association of Mutual Funds of India (AMFI), Foreign Exchange Dealers Association of India (FEDAI), Primary Dealers Association of India (PDAI), clearing house associations and stock exchanges, among others, which play a critical role in developing codes of conduct and setting and maintaining standards for different segments of the financial system with a view to promoting and protecting interests of institutions, investors and depositors in India.

India's Standing Committee on International Financial Standards and Codes

With a view to promote and assist in the task of adoption and implementation of international financial standards in India, a Standing Committee on International Financial Standards and Codes was set up on December 8, 1999. The Committee has been entrusted with the task of monitoring developments in global standards and codes being evolved by standard setting bodies as part of the effort to create a sound international financial architecture and to consider all aspects of applicability of these standards to Indian financial system. The Committee is also assigned with the task of periodically reviewing the progress in regard to the codes and practices and making available its reports to all concerned organisations in public and private sectors with the aim of sensitising public opinion and creating awareness for the concerned subject areas.

Advisory Groups in India

To assist the Standing Committee, Advisory Groups were constituted in different areas of the financial system under the Chairmanship of eminent experts, generally not holding official positions in government or other regulatory bodies in ten major areas - accounting and auditing, banking supervision, bankruptcy, corporate governance, data dissemination, fiscal transparency, insurance regulation, transparency of monetary and financial policies, payments and settlement

system and securities market regulation. The Advisory Groups had, in general, the following terms of reference :

- (i) to study present status of applicability and relevance and compliance of relevant standards and codes,
- (ii) to review the feasibility of compliance and the time frame over which this could be achieved given the prevailing legal and institutional practices,
- (iii) to compare the levels of adherence in India, vis-à-vis in industrialised and also emerging economies particularly to understand India's position and prioritize actions on some of the more important codes and standards, and
- (iv) to chalk out a course of action for achieving the best practices.

About this Report

The present Report prepared by the Advisory Group on 'Transparency in Monetary and Financial Policies' chaired by Shri M. Narasimham, Chairman, Administrative Staff College of India with Shri S.S Tarapore, former Deputy Governor, Reserve Bank of India as member was submitted to the Standing Committee in September 2000. Good transparency practices are important for strengthening institutional governance and increasing the efficiency of markets. By setting out clear mandates and responsibilities and encouraging open processes for the formulation, conduct and implementation of operational procedures, transparency also serves to increase the effectiveness, credibility and accountability of monetary and financial policies. The Advisory Group has reviewed, in detail, the IMF codes on 'Good Practices on Transparency in Monetary and Financial Policies' and recommended a set of actions duly taking into account the Indian context vis-à-vis the best practices on the basis of a survey of experience of select countries. In particular, explaining the overall concept and the context of transparency, the Report makes a critical evaluation of India's compliance with standards and codes and suggests measures to improve transparency in the formulation and implementation of monetary and other financial policies.

We are grateful to the Chairman and Member of the Advisory Group for the efforts they have undertaken in preparing the Report. The Report of the Group can also be accessed on the Reserve Bank web site <www.rbi.org.in>.

Purpose of this Report

We are publishing the report with the objective of inviting comments from the widest section of market participants and other interested observers on the issues addressed by the Advisory Group. We shall be grateful to receive views and comments on the Report which may be addressed to the Secretariat, Standing Committee on International Financial Standards and Codes, 24th Floor, Central Office, Reserve Bank of India, Fort, Mumbai- 400001. It is requested that the responses on the Report may kindly be sent as early as possible and in any case, before end March, 2001 for suitable consideration by the Standing Committee.

What Next ?

Although, not taking any particular view on the recommendations of the Advisory Group, the Standing Committee would prepare a summary and highlight key aspects of the recommendations of the Report as also identify action points requiring attention by regulatory authorities/agencies concerned so that the follow-up could be undertaken. The Standing Committee would help organize seminars and workshops to enhance awareness and concretise views on recommendations of the Report and seek comments/feedback from both private and public sector organisations, international institutions and experts. We hope to review and complete these tasks in the next few months. However, it is proposed that an annual review of status and progress regarding compliance with and implementation of standards and codes will also be subsequently prepared and submitted to the Ministry of Finance.

(Y.V Reddy) (Ajit Kumar)
Chairman Alternate-Chairman
Standing Committee on International
Financial Standards and Codes

* Paper presented by Dr. Y.V. Reddy, Deputy Governor, Reserve Bank of India, at the Conference on International Standards and Codes organised by IMF-World Bank at Washington DC on March 7-8, 2001. Dr. Reddy is thankful to Dr. Himanshu Joshi for his valuable assistance.

¹ Established by G-7 with the purpose of promoting international financial stability, improving functioning of markets and reducing systemic risk through enhanced information exchange and international cooperation in financial market supervision and surveillance. The Financial Standard Forum is a grouping of officials responsible for financial stability in key financial centres, international financial institutions, international supervisory and regulatory bodies and committees of central bank experts.