

**Draft guidelines for Consolidated Accounting
and other quantitative methods to facilitate
Consolidated Supervision**

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June 24, 2002

All Commercial Banks
(excluding RRBs)

Dear Sir,

**Draft guidelines for Consolidated Accounting
and other quantitative methods to facilitate
Consolidated Supervision**

Following the failure of large international banks triggered by the operations of their subsidiary ventures and by the concerns arising out of the entry of banks into other lines of business, there has been renewed focus on empowering supervisors to undertake consolidated supervision of bank groups. The Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision (BCBS) have underscored this requirement as an independent principle.

2. Accordingly, a multi-disciplinary Working Group was set up in November 2000 by Reserve Bank of India (RBI) under the Chairmanship of Shri Vipin Malik. The recommendations of the Working Group were examined in the RBI and it has been decided to implement them with suitable changes, wherever considered necessary. The Working Group has identified the following three components of consolidated supervision :

- (a) consolidated financial statements (CFS),
- (b) consolidated prudential reports (CPR), and
- (c) application of prudential regulations like capital adequacy and large exposures/ risk concentration on group basis.

3. Initially, consolidated supervision would be mandated for all groups where the controlling entity is a supervised institution. This would cover-

- a) all banks in banking groups, i.e. where the bank is the parent/controlling entity,
- b) all banks which are promoted and “controlled” by financial institutions or non-banking financial companies, and
- c) all registered non-banking deposit taking financial companies which have networks of subsidiaries and are in control of the group. In respect of these non-banking financial companies, consolidation should be applied on selective basis subject to certain conditions.

4. The draft guidelines on the proposed Consolidated Accounting and other quantitative methods to facilitate Consolidated Supervision as applicable to the institutions at paragraph 3 (a) and 3 (b) above are furnished in the Annexure. The draft would be open for comments/feedback from banks up to July 15, 2002. Banks are, therefore, requested to urgently furnish their comments/feedback on the draft guidelines before the above date to the Chief General Manager, Department of Banking Operations & Development, at the above address. The feedback may also be faxed on the following numbers :

(022) 2183785 or 2189558

Yours faithfully

(B.Mahapatra)
General Manager

Encls: As above