

## **Report of the Joint Parliamentary Committee on Stock Market Scam**

January 17, 2003

DBOD. No. Appt. BC. 61/08.139.001/2002-03

The Chairmen & Managing Directors  
of all Scheduled Commercial banks  
(excluding Foreign banks, Regional rural  
banks and Local area banks)

Dear Sir,

### **Report of the Joint Parliamentary Committee on Stock Market Scam**

As you are aware, Reserve Bank had issued a circular DBOD.No.BC. 116 /08.139.001 / 2001-2002 dated June 20, 2002 enclosing a copy of Dr.Ganguly Group Report and list of recommendations to be implemented (as [Annexure](#)) for placing before the Board of Directors. The banks have also been advised to adopt and implement the recommendations in the Annexure based on the decisions taken by the Board.

2. The Joint Parliamentary Committee (JPC) on Stock Market Scam have observed in paragraph 10.89 of their report that it is imperative for the banks to follow strategies and techniques which are basic to the tenets of sound corporate governance, which include

- (i) capable and experienced Directors
- (ii) efficient management
- (iii) coherent strategy and business plan and
- (iv) clear lines of responsibility and accountability.

3. In this context mention has been made in the JPC report about the recommendations of Advisory Group on Banking Supervision set up by RBI under the chairmanship of Shri M.S. Verma, which submitted its report in May 2001, with regard to sound corporate governance. The Joint Parliamentary Committee while endorsing these recommendations has desired that the same be implemented expeditiously.

4. In view of the foregoing we advise that the banks should also take immediate action on the recommendations of the Advisory Group on Banking Supervision pertaining to strengthening of MIS and internal control mechanism in their institution, as indicated in the Annexure to this circular.

5. Please acknowledge receipt.

Yours faithfully,

(M.R.Srinivasan)

Chief General Manager-in-Charge

Encl: Annexure (as above)

**Annexure**

**Guidelines on Corporate Governance measures  
based on the recommendations of Advisory Group  
on Banking Supervision (Chairman – M.S.Verma)**

1. **Strengthening of Risk Management Framework**
  - (i) The formation and operationalisation of Risk Management Committee should be speeded up and their role further strengthened.
  - (ii) The Directors should acquaint themselves with risk management techniques.
2. **Review of connected lending**

Exposure to related entities of the bank and the asset classification of such lending / investment may be periodically reviewed by the Boards.
3. **Constitution of Committees**

Conformity with Corporate Governance standards, viz in constitution of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review function etc. may be ensured.
4. **Strategic business plan and grass root level percolation thereof.**
  - (i) Banks should develop mechanisms which can help them ensure percolation of their strategic objectives and corporate values throughout the organization.
  - (ii) Boards need to set and enforce clear lines of responsibility and accountability for themselves as well as the senior management and throughout the organization
5. **Improvement in internal control systems**
  - (i) Boards of banks should modify their approach towards internal controls so that they have a firmer say in the maintenance and improvement of internal control systems. Discussions between the managements and boards of banks on quality of internal control systems should be institutionalised.
  - (ii) The boards of banks should specifically pay attention to creating and sustaining a culture of control in banks.
  - (iii) More awareness needs to be promoted among senior management in regard to security, risk and controls in computerised environment.