



भारतीय रिज़र्व बैंक
RESERVE BANK OF
INDIA

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RBI/2004/98
DBS. CO. FGV(F) No. 1306 /23.08.001/2003-04

To all scheduled commercial banks (excluding RRBs and LABs)

Dear Sir,

Guidelines on Implementation of Best Practices Code in Banks.

Please refer to our circular DBS.FGV(F) No. 12/23.08.001/2001-2002 dated May 3, 2002, regarding implementation of the recommendations of the Committee on Legal Aspects of Bank Frauds (Mitra Committee) and the High Level CVC Group. We had, among other things, commended to banks implementation of Best Practices Code (BPC) as a measure to prevent frauds.

2. On an examination of the BPC as developed by certain select banks, it was observed that there was no uniformity in their content and coverage. The documents were not prepared as envisaged by the Mitra Committee. It has, therefore, been decided to issue the following guidelines which may be kept in view while preparing the BPC. The guidelines have been prepared with a view to bringing about a certain minimum level of uniformity with regard to the content and coverage of the BPC.

3. The BPC, as envisaged by the Mitra Committee, relates to detailed procedural rules for entering into transactional relations. The main objective is that such procedures, especially those in all fraud-prone areas, should be well documented, compared with national and international best practices, experimented with, and improved upon in the light of the experience gained. Preparation of BPC should involve examination of all procedures, processes, products, activities and systems, existing and future (as and when a new product/process is introduced). The BPC should be integrated with the overall risk management strategy of the bank. Apart from it being viewed in the context of prevention of frauds, it should also be considered as a part of the strategy to mitigate all possible operational risk losses.

4. Banks may keep the following guidelines in view while compiling the BPC:

- (a) The BPC should be a comprehensive and homogenous document.
- (b) While the manual of instructions / circulars issued by banks from time to time could be consolidated and incorporated, this by itself would not constitute 'BPC'.

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- (c) The BPC should take into account the instructions relating to the common fraud prone areas and their prevention issued to banks by RBI from time to time.
- (d) The BPC should also highlight the recommendations of the Ghosh Committee and the Mitra Committee advised to banks by RBI for implementation vide our circular DBOD.BC.20/17.04.001/92 dated August 25,1992 and DBS.FGV(F) No.BC 12/23.08.001/2001-02 dated May 3,2002 respectively. .
- (e) The BPC should take into account the relevant recommendations of the Narang Committee on study of large value frauds, Narasimham Committee on Banking Sector Reforms, recommendations of the Estimate Committee on prevention of frauds in public sector banks, etc. advised to banks for implementation vide our circulars DBS. FGV.BC.56/23.04.001/98-99 dated June 21,1999, DBOD. BP. BC. 29/21,01,023/99 dated April 16, 1999 and DOS.No.GC.BC.13/17.04.001/94 dated October 17,1994 respectively.
- (f) The BPC should also take into account the instructions of the CVC, if any, issued from time to time.
- (g) The 'BPC' should, at a minimum, cover all the functional areas like cash, safe custody of other valuables (DD/TT/LC/Guarantee forms, etc.), deposit accounts, investment portfolio, credit portfolio, foreign exchange transactions, treasury operations, bills portfolio, remittances, cash receipts and payments, issue/payment of demand drafts, clearing transactions, government transactions, LCs/ Guarantees, etc.
- (h) The BPC may also incorporate practices that would help prevention of losses to its customers and include suitable guidance to such customers. Banks may therefore, codify the precautions to be taken by customers and the same should be publicised by placing on their website or through any other medium.
- (i) The BPC should be periodically revised and updated in the light of the experience gained, fresh instructions from the Reserve Bank and suggestions made by internal/external auditors.

Banks which have already prepared the BPC may carry out the necessary changes in the document in the light of the above guidelines.

5. Please acknowledge receipt.

Yours faithfully,

(K. V. Subba Rao)
Chief General Manager