



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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January 14, 2004

The Chief Executives
All Indian Commercial banks

Dear Sir,

Monitoring of large value frauds by the Board of Directors

Please refer to our circular DOS No BC 14/ Admn.919/16.13.100/95 dated September 26, 1995 containing revised instructions on the constitution and functions of the Audit Committee of Board (ACB). The ACB is required to oversee the internal inspection, statutory audit, inter-branch/inter-bank accounts, balancing of books, major areas of house-keeping, etc. The Committee is also required to focus attention on preventive aspects as well as follow up action on frauds.

2. As delay in various aspects of frauds like detection, reporting to regulatory and enforcement agencies and action against the perpetrators of the frauds has been causing concern, the Chief Vigilance Commissioner has emphasized the need for paying focused attention on monitoring of frauds at the highest level and suggested constituting a sub-committee of the Board which would be exclusively dedicated to the monitoring of fraud cases. The Director, Central Bureau of Investigation (CBI) has also emphasized the need to assign a well defined role to the Board of the banks in monitoring of fraud cases. It has, therefore, been decided that the Boards of banks should constitute a Special Committee for monitoring and following up cases of frauds involving amounts of Rs 1 crore and above exclusively, while ACB may continue to monitor all the cases of frauds in general.

3. The broad guidelines regarding constitution and functions of the Special Committee of the Board are given in the following paragraphs:

a) Constitution of the Special Committee

The Special Committee may be constituted with five members of the Board of Directors who will include,

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- Chairman and Managing Director in case of Public Sector Banks/Managing Director in case of State Bank of India(SBI)/associate banks of SBI; and private sector banks,
- Two members from ACB, and
- Two other members from the Board excluding RBI nominee.

b) Functions of Special Committee

The major functions of the Special Committee would be to monitor and review all the frauds of Rs 1 crore and above so as to;

- Identify the systemic lacunae if any that facilitated perpetration of the fraud and put in place measures to plug the same;
- Identify the reasons for delay in detection ,if any, reporting to top management of the bank and RBI;
- Monitor progress of CBI / Police Investigation, and recovery position and;
- Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time.
- Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls.
- Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

c) Meetings

The periodicity of the meetings of the Special Committee may be decided according to the number of cases involved. However ,the Committee should meet and review as and when a fraud involving an amount of Rs.1 crore and above comes to light.

d) Review of the functioning of the Special Committee

The functioning of the Special Committee of the Board may be reviewed on a half yearly basis and the reviews may be put up to the Board of Directors.

The above instructions may please be implemented with immediate effect. Action taken in this regard may be intimated to us.

Yours faithfully

(K V Subba Rao)
Chief General Manager

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