



3. It is noteworthy that the third pillar of the Basel II addresses how safety and soundness in the banking system can be strengthened by market discipline through enhanced transparency in bank's disclosures to the public. It is also internationally recognized that, while transparency strengthens market discipline, due to the inherent need to preserve confidentiality in relation to its customers, banks may not be able to disclose all data that may be relevant to assess its risk profile. In this light, while mandatory disclosures include certain prudential parameters such as capital adequacy, level of NPAs etc., the supervisors, themselves may not disclose all or some information obtained on-site or off-site. In many countries, there is automatic and non-discretionary public disclosures of penalties imposed for violation of any regulation. In some countries, wherever there are supervisory concerns, "prompt corrective action" programmes are normally put in place, which may or may not be publicly disclosed. Circumspection in disclosures by the supervisors arises from the potential market reaction that it might trigger, which may not be desirable. Thus, in any policy of transparency, there is a need to build processes which ensure that the benefits of supervisory disclosure are appropriately weighed against the risk to all stakeholders of non-disclosure in each instance.

4. On balance, while there could be considerable risks and judgments involved in the disclosure of information obtained by the supervisor, there is significant merit in adopting a policy of transparency in regard to statutory penalties levied and other specific supervisory actions.

Disclosure of penalties imposed by RBI

5. At present, Reserve Bank is empowered to impose penalties on a commercial bank under the provision of Section 46 (4) of the Banking Regulation Act, 1949, for contraventions of any of the provisions of the Act or non-compliance with any other requirements of the Banking Regulation Act, 1949; order, rule or condition specified by Reserve Bank under the Act. The imposition of penalty on a bank is decided after a due process of advising the bank and seeking its explanation so as to afford a reasonable opportunity to the bank for being heard. Considering the above and consistent with the international best practices in disclosure of penalties imposed by the regulator, it has



been decided that disclosure of the details of the levy of penalty on a bank in public domain will be in the interests of the investors and depositors.

Disclosure of actions taken on the basis of inspection reports or other adverse findings

6. It has also been decided that strictures or directions on the basis of inspection reports or other adverse findings should be placed in the public domain.

Mode of disclosure for penalties

7. The mode of disclosures of penalties, imposed by Reserve Bank will be as follows:

- a) A Press Release will be issued by the Reserve Bank giving details of the circumstances under which the penalty is imposed on the bank alongwith the communication on the imposition of penalty in public domain.
- b) The penalty should also be disclosed in the “Notes on Accounts” to the balance sheet in the concerned bank’s next Annual Report.
- c) In the case of foreign banks, the penalty should be disclosed in the “Notes on Accounts” to the next balance sheet for the Indian operations of the concerned foreign banks.

Mode of disclosure of other actions

8. With regard to strictures or directions by the Reserve Bank, there would be a press release by the Reserve Bank, which would be confined to disclosure of the stricture or the direction only.

Effective date

9. The above policy will come into operation with effect from November 1, 2004.

Yours faithfully,

(C.R. Muralidharan)
Chief General Manager-in-Charge