RBI / 2005-2006 / 122
Ref: DBOD. No. FID. FIC.2 /01.02.00/2005-06

August 13, 2005

The CEOs of the all-India Term-lending and Refinancing Institutions,
(Exim Bank, IDFC Ltd., IFCI Ltd., IIBI Ltd., NABARD, NHB, SIDBI and TFCI Ltd.)

Dear Sir,

Master Circular - Disclosure Norms for Financial Institutions

Please refer to the Master Circular DBS.FID. No. C-2 /01.02.00/2004-05 dated August 2, 2004 consolidating instructions/ guidelines issued to banks till 30 June 2004 on matters relating to norms for disclosures in the published annual reports. The Master Circular has been suitably updated by incorporating instructions issued up to 30th June 2005 and has also been placed on the RBI web-site (http: // www.rbi.org.in).

2. This Master Circular is a compilation of all the instructions contained in the circulars issued by RBI on the above subject, which are operational as on the date of this circular.

Yours faithfully,

(K. Prasad)
Chief General Manager

Disclosures in the Published Annual Reports of Financial Institutions

Recognising considerable divergence amongst the financial institutions in the nature and manner of disclosures made by them in their published annual reports, the disclosure norms were introduced by Reserve Bank of India for the financial institutions in March 2001 with a view to bringing about uniformity in the disclosure practices adopted by them and improving the degree of transparency in their affairs. Such disclosures, which came into effect from the financial year 2000-2001 and were subsequently enhanced, are required to be made as part of the "Notes to Accounts" to enable the auditors to authenticate the information and notwithstanding the fact that the same information might be contained elsewhere in the published annual report. These disclosures constitute only minima and if an FI desires to make any additional disclosures, it would be well advised to do so.

2. The various disclosure requirements are :

A. Capital

(a) CRAR, core CRAR and supplementary CRAR

(b) The amount of subordinated debt raised and outstanding as Tier–II capital

(c) Risk weighted assets – separately for on- and off-balance sheet items

(d) The share holding pattern as on the date of the balance sheet

B. Asset quality and credit concentration

(e) Percentage of net NPAs to net loans and advances

(f) Amount and percentage of net NPAs under the prescribed asset classification categories

(g) Amount of provisions made during the year towards Standard assets, NPAs, investments (other than those in the nature of an advance), income tax

(h) Movement in net NPAs

(i) Credit exposure as percentage to capital funds and as percentage to total assets, in respect of:

* The largest single borrower;

* The largest borrower group;
* The 10 largest single borrowers;
* The 10 largest borrower groups;

(Names of the borrowers / borrower groups need not be disclosed).

(j) Credit exposure to the five largest industrial sectors (if applicable) as percentage to total loan assets

C. <u>Liquidity</u>

(k) Maturity pattern of rupee assets and liabilities; and

(l) Maturity pattern of foreign currency assets and liabilities, in the following format:

Items	Less than or equal to 1 year	More than a year up to 3 years	More than 3 years up to 5 years	More than 5 years up to 7 years	More than 7 years	Total
Rupee assets						
Foreign currency assets						
Total assets						
Rupee liabilities						
Foreign currency liabilities						
Total liabilities						
Total						

D. <u>Operating results</u>

(m) Interest income as a percentage to average working funds

(n) Non-interest income as a percentage to average working funds

(o) Operating profit as a percentage to average working funds

(p) Return on average assets

(q) Net Profit per employee

E. Movement in the provisions

The movement in the provisions held towards Non Performing Assets and depreciation in investment portfolio should be disclosed as per the following format:

I. Provisions for Non Performing Assets (comprising loans, bonds and debentures in the nature of advance and inter-corporate deposits)
(excluding provision for standard assets)

a) Opening balance as at the beginning of the financial year

Add: Provisions made during the year

Less: Write off, write back of excess provision

b) Closing balance at the close of the financial year

II. Provisions for depreciation in investments

c) Opening balance as at the beginning of the financial year

Add:

i. Provisions made during the year
ii. Appropriation, if any, from Investment Fluctuation Reserve Account during the year

Less:

i. Write off during the year
ii. Transfer, if any, to Investment Fluctuation Reserve Account

d) Closing balance as at the close of the financial year

F. Restructured Accounts

The total amount of loan assets as also of the sub standard assets/ doubtful assets separately, which have been subjected to restructuring, etc should be disclosed.

G. Assets Sold to Securitisation Company/ Reconstruction Company

FIs which sell their financial assets to an SC/ RC, shall be required to make the following diclosures :

a) Number of Accounts
b) Aggregate value (net of provisions) of accounts sold to SC /RC
c) Aggregate consideration
d) Additional consideration realised in respect of accounts transferred in earlier years
e) Aggregate gain / loss over net book value.

H. Forward Rate Agreements and Interest Rate Swaps

The following disclosures should be made in the note to the balance sheet**:**

- The notional principal of swap agreements;
- Nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the swaps;
- Quantification of the losses which would be incurred if the counter parties failed to fulfil their obligations under the agreements;
- Collateral required by the entity upon entering into swaps;
- Any concentration of credit risk arising from the swaps. Examples of concentration could be exposures to particular industries or swaps with highly geared companies; and
- The "fair" value of the total swaps book. If the swaps are linked to specific assets, liabilities or commitments, the fair value would be the estimated amount that the entity would receive or pay to terminate the swap agreements at balance sheet date. For a trading swap, the fair value would be its mark to market value.

I. Interest Rate Derivatives

The FIs dealing in interest rate derivatives on exchanges may disclose as a part of the 'notes on accounts' to balance sheets the following details:

Sr. No.	Particulars	Amount
1	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise) a) b) c)	
2	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March _____ (instrument-wise) a) b) c)	
3	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise) a) b) c)	
4	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise) a) b) c)	

J. Investments in Non Government Debt Securities:

The FIs should disclose the details of the issuer composition of investments made through private placement and the non-performing investments in the 'Notes on Accounts' of the balance sheet, with effect from the year ending March 31, 2004 (June 30, 2004 in case of NHB) in the format furnished in the Annex I.

K. Consolidated Financial Statements

EXTENT OF CONSOLIDATION:

A parent, presenting the CFS, should consolidate the financial statements of **all subsidiaries** – domestic as well as foreign, except those specifically permitted to be excluded under the AS-21 the ICAI. The reasons for not consolidating a subsidiary should be disclosed in the CFS. The responsibility of determining whether a particular entity should be included or not for consolidation would be that of the Management of the parent entity. In case, its Statutory Auditors are of the opinion that an entity, which ought to have been consolidated, has been omitted, they should incorporate their comments in this regard in the "Notes to Account".

ACCOUNTING POLICIES:

CFS should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. (For the purpose, the FIs may rely on a Statement of Adjustments for non-uniform accounting policies furnished by the statutory auditors of the subsidiaries.) If it is not practicable to do so, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

L. Disclosures on Risk Exposures in Derivatives

Best international practices require meaningful and appropriate disclosures of FIs' exposures to risk and their strategy towards managing the risk. FIs should make meaningful disclosures of their derivatives portfolio. A minimum framework for disclosures by FIs on their risk exposures in derivatives is furnished in Annex II. The disclosure format includes both qualitative and quantitative aspects and has been devised to provide a clear picture of the exposure to risks in derivatives, risk management systems, objectives and policies. FIs should make these disclosures as a part of the 'Notes on Accounts' to the Balance Sheet with effect from March 31, 2005 (June 30, 2005 in the case of National Housing Bank).

Notes:

1. The CRAR and other related parameters, determined as per the extant capital adequacy norms for the FIs, may be disclosed.

2. For the purpose of asset quality and credit concentration, the following should also be reckoned for determining the amount of loans and advances and the NPAs and included in the disclosures at B above :

   (i) **Bonds and Debentures** : The bonds and debentures should be treated in the nature of advance when :

   - The debenture / bond is issued as part of the proposal for project finance and the tenor of the bond / debenture is for three years and above.

     and

   - The FI has a significant stake (i.e. 10% or more) in the issue.

and

- The issue is a part of private placement i.e. the borrower has approached the FI, and not part of a public issue where the FI has subscribed in response to an invitation.

(ii) **Preference Shares** : The preference shares, other than convertible preference shares, acquired as part of project financing and meeting the criteria as at (i) above.

(iii) **Deposits :** The deposits placed with the corporate sector.

3. The “credit exposure” shall include funded and non-funded credit limits, underwriting and other similar commitments. The sanctioned limits or outstandings whichever is higher shall be reckoned for arriving at exposure limit. In case of term loans, however the exposure limit may be reckoned on the basis of actual outstandings plus undisbursed or undrawn commitments.

However, in cases where disbursements are yet to commence, exposure limit should be reckoned on the basis of the sanctioned limit or the extent upto which the FI has entered into commitments with the borrowing companies in terms of the agreement.

FIs should include in the non-funded credit limit, the forward contracts in foreign exchange and other derivative products like currency swaps, options, etc as per the extant exposure norms.

4. Capital funds for the purpose of credit concentration, would be the total regulatory capital as defined under capital adequacy standards (i.e.Tier I and Tier II Capital).

5. The definition of ' borrower group' would be the same as applied by the FIs in complying with group exposure norms.

6. For the maturity pattern of assets and liabilities, the bucketing of various items of assets and liabilities in the specified time buckets should be done in accordance with the RBI Guidelines on Asset Liability Management System, issued to FIs.

7. For operating results, the working funds and total assets may be taken as the average of the figures as at the end of the previous accounting year, the end of the succeeding half year and the end of the accounting year under report. (The “working funds” refer to the total assets of the FI.)

8. All permanent, full-time employees in all cadres should be reckoned for computing per employee net profit.

ANNEX I

FORMAT FOR DISCLOSURE OF ISSUER COMPOSITION FOR INVESTMENT IN DEBT SECURITIES

A. Issuer categories in respect of investments made

(As on the date of the balance sheet)

(Rs. in crore)

Sr. No.	Issuer	Amount	Amount of			
			invest-ment made through private place-ment	'below invest-ment grade' Securities held	'unrated' Securities held	'unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	PSUs					
2	FIs					
3	Banks					
4	Private corporates					
5	Subsidiaries/ Joint ventures					
6	Others					
7	# Provision held towards depreciation		X X X	X X X	X X X	X X X
	Total *					

Only aggregate amount of provision held to be disclosed in column 3.

* **NOTES**:

1. Total under column 3 should tally with the total of investments included under the following categories in the balance sheet:

a. Shares
b. Debentures & Bonds
c. Subsidiaries/ joint ventures
d. Others

2. Amounts reported under columns 4, 5, 6 and 7 above might **not** be mutually exclusive.

B. Non performing investments

(Rs. in Crore)

Particulars	Amount
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

Annex II

Disclosures on risk exposure in derivatives

Qualitative Disclosure

FIs shall discuss their risk management policies pertaining to derivatives with particular reference to the extent to which derivatives are used, the associated risks and business purposes served. The discussion shall also include:

- the structure and organization for management of risk in derivatives trading,

- the scope and nature of risk measurement , risk reporting and risk monitoring systems,

- policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants, and

- accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

Quantitative Disclsoures

(Rs. in Crore)

Sl. No	Particular	Currency Derivatives	Interest rate derivatives
1	**Derivatives (Notional Principal Amount)**		
	a) For hedging		
	b) For trading		
2	**Marked to Market Positions[1]**		
	a) Asset (+)		
	b) Liability (-)		
3	**Credit Exposure [2]**		
4	**Likely impact of one percentage change in interest rate (100*PV01)**		
	a) on hedging derivatives		
	b) on trading derivatives		
5	**Maximum and Minimum of 100*PV01 observed during the year**		
	a) on hedging		
	b) on trading		

Note:

1. The net position may be shown either under asset or liability, as the case may be, for each type of derivatives.

2. FIs may adopt the Current Exposure Method prescribed vide Circular DBS.FID.No.C-12/01.02.00/2002-03 dated January 20,2003 on Measurement of Credit Exposure of Derivative Products. In brief the method to be adopted is as follows:

In order to calculate the credit exposure equivalent of off-balance sheet interest rate and exchange rate instruments under Current Exposure Method, a FI would sum:

- the total replacement cost (obtained by "marking to market") of all its contracts with positive value (i.e., when the FI has to receive money from the counterparty), and
- an amount for potential future changes in credit exposure calculated on the basis of the total notional principal amount of the contract multiplied by the following credit conversion factors according to the residual maturity of the contract :

Residual Maturity	**Conversion Factor to be applied on Notional Principal Amount**	
	Interest Rate Contract	**Exchange Rate Contract**
Less than one year	Nil	1.0 %
One year and over	0.5%	5.0 %

Appendix

No.	Circular No.	Date	Subject	Para No.
1.	DBOD.No.FID. FIC- 1 /01.02.00/ 2004-05	26.04.2005	Disclosures on Risk Exposures in Derivatives	Entire circular
2.	DBS. FID. No. C-11 / 01.02.00/2003-04	08.01.2004	Final Guidelines on investment by the FIs in debt securities	Para 9 of Annexure 2
3.	DBS. FID. No. C-5 / 01.02.00/2003-04	01.08.2003	Guidelines for Consolidated Accounting and Consolidated Supervision	Para 1.3 & 1.7.1
4.	IDMC. MSRD. 4801 / 06.01.03/2002-03	03.06.2003	Guidelines on Exchange Traded Interest Rate Derivatives	Para 4 (x)
5.	DBOD No. BP.BC. 96 / 21.04.048/ 2002-2003	23.04.2003	Guidelines on Sale of Financial Assets to Securitisation Company/ Reconstruction Company	Para 6
6.	DBS. FID. No. C-14 / 01.02.00/2001-02	08.02.2002	Additional Disclosures in the Published Annual Reports	Entire circular
7.	DBS. FID. No. C-6 / 01.02.00 /2001-02	16.10.2001	Guidelines for Classification and Valuation of Investments –Modifications / Clarifications	Para 2 and 3 of the Annexure
8.	DBS. FID. No. C-26 / 01.02.00 /2000-01	20.06.2001	Monetary and Credit Policy Measures 2001-2002 – Credit Exposure Norms	Para 2
9.	DBS. FID. No. C-19 / 01.02.00/2000-01	28.03.2001	Treatment of Restructured Accounts	Para 8
10.	DBS. FID. No. C- 18 / 01.02.00/ 2000-01	23.03.2001	Disclosures in the Published Annual Reports	Entire Circular
11.	DBS. FID. No. C-9 / 01.02.00 /2000-01	09.11.2000	Guidelines – Classification and Valuation of Investments	Para 4 of the Annexure
12.	MPD. BC. 187 / 07.01.279 / 1999-2000	07.07.1999	Forward Rate Agreements / Interest Rate Swaps	Annexure 3
13.	DBS. FID . No. 20 / 02.01.00 / 1997-98	04.12.1997	Limits on Credit Exposures of Term Lending Financial Institutions to Individual/ Group Borrowers	Entire Circular