

RBI 234/2005
DBS.FrMC.BC..No. 2/23.04.001/2005-06

December 16, 2005

The Chief Executives of all
Primary (Urban) Co-operative Banks

Dear Sir,

Frauds – Classification and Reporting

Please refer to letter UBD.No.BSD.IP.5/12.03.00/2003-04 dated September 19, 2003 forwarding the Master Circular on “Frauds – Classification and Reporting”. Subsequently, with the constitution of Frauds Monitoring Cell (FrMC) in the Department of Banking Supervision of the Reserve Bank of India, the work relating to monitoring of frauds in Primary (Urban) Co-operative Banks is also being attended to by FrMC. Accordingly, we forward herewith a revised Master Circular for Primary (Urban) Co-operative Banks. The guidelines on the subject may be implemented by UCBs with immediate effect. This Circular supersedes all earlier instructions on the subject.

Yours faithfully

(K V Subba Rao)
Chief General Manager

Master Circular on Frauds – Classification and Reporting

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Formats :

FMR-1 Report on Actual or Suspected Frauds in Banks

FMR-2 Quarterly Report on Frauds Outstanding

FMR-3 Quarterly Progress Report on Frauds

FMR-4 Report on Dacoities / Robberies / Thefts / Burglaries

1. INTRODUCTION

- 1.1 Incidence of frauds, dacoities, robberies, etc., in banks is a matter of concern. While the primary responsibility for preventing frauds lies with banks themselves, the Reserve Bank of India has been advising banks from time to time about the major fraud prone areas and the safeguards necessary for prevention of frauds. The Reserve Bank has also been circulating to banks, the details of frauds of an ingenious nature not reported earlier so that banks could introduce necessary safeguards by way of appropriate procedures and internal checks. To facilitate this ongoing process, it is essential that banks report to the Reserve Bank full information about frauds and the follow-up action taken thereon. Banks may, therefore, adopt the reporting system for frauds as prescribed in the following paragraphs.
- 1.2 It has been observed that frauds are, at times, detected in banks long after their perpetration. The fraud reports are also submitted to the Reserve Bank, many a time, with considerable delay and without the required information. On certain occasions, the Reserve Bank comes to know about frauds involving large amounts only through press reports. Banks should, therefore, ensure that the reporting system is suitably streamlined so that frauds are reported without any delay. Banks must fix staff accountability in respect of delays in reporting fraud cases to the Reserve Bank.
- 1.3 Delay in reporting of frauds and the consequent delay in alerting other banks about the modus operandi and issue of caution advices against unscrupulous borrowers could result in similar frauds being perpetrated elsewhere. Banks may, therefore, strictly adhere to the timeframe fixed in this circular for reporting fraud cases to the Reserve Bank failing which banks would be liable for penal action as prescribed under Section 47(A) of the Banking Regulation Act, 1949 (As applicable to co-operative societies).
- 1.4 Banks should specifically nominate a senior official who will be responsible for submitting all the returns referred to in this circular.

2. CLASSIFICATION OF FRAUDS

- 2.1 In order to have uniformity in reporting, frauds have been classified as under, based mainly on the provisions of the Indian Penal Code:
 - (a) Misappropriation and criminal breach of trust.
 - (b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
 - (c) Unauthorised credit facilities extended for reward or for illegal gratification.

- (d) Negligence and cash shortages.
 - (e) Cheating and forgery.
 - (f) Irregularities in foreign exchange transactions.
 - (g) Any other type of fraud not coming under the specific heads as above.
- 2.2 Cases of 'negligence and cash shortages' referred to in item (d) above are to be reported as fraud if the intention to cheat/defraud is suspected/ proved. Cases of cash shortage up to Rs. 1,000/- reported on the same day by persons handling the cash and where there is no suspicion of fraud, need not be reported as fraud. However, cases of cash shortage involving more than Rs. 1,000/- and those detected by the management/ inspecting officer, irrespective of the amount, may be reported as fraud.
- 2.3 To ensure uniformity and to avoid duplication, frauds involving negotiable instruments may be reported only by the paying banker and not by the collecting banker.
- 2.4 Cases of theft, burglary, dacoity and robbery should not be reported as fraud. Such cases may be reported separately as detailed in paragraph 8.

3. REPORTING OF FRAUDS TO RESERVE BANK OF INDIA

3.1 Frauds involving amounts of less than Rs. 1 lakh

The cases of individual frauds involving amounts of less than Rs 1 lakh are not to be reported individually to the Reserve Bank. Statistical data in respect of such frauds should, however, be submitted to Reserve Bank in a quarterly statement as detailed in para 4.1.

3.2 Frauds involving amounts of Rs 1 lakh and above but less than Rs 25 lakh

The cases of individual frauds involving amounts of Rs.1 lakh and above but less than Rs.25 lakh should be reported to the Regional Office of Urban Banks Department of Reserve Bank of India, under whose jurisdiction the Head Office of the bank falls, in the format given in FMR-1, within three weeks from the date of detection.

3.3 Frauds involving amounts of Rs 25 lakh and above

3.3.1 The cases of individual frauds involving amounts of Rs.25 lakh and above should be reported to Frauds Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, Central Office, World Trade Centre,

Centre-1, Cuffe Parade, Colaba, Mumbai 400 005 in the format given in FMR-1, within three weeks from the date of detection.

3.3.2 In addition to the requirement given at paragraph 3.3.1 above, banks may report the fraud by means of D.O. letter addressed to the Chief General Manager-in-Charge of the Department of Banking Supervision, Reserve Bank of India, Central Office, within a week of such fraud coming to the notice of the bank's Head Office. The letter may contain brief particulars of the fraud such as amount involved, nature of fraud, modus operandi in brief, name of the branch/office, names of parties involved (if they are proprietorship/partnership concerns or private limited companies, the names of proprietors, partners and directors), names of officials involved and whether the complaint has been lodged with the Police. A copy of the D.O. letter should also be endorsed to the Regional Office of Urban Banks Department of Reserve Bank under whose jurisdiction the bank's branch, where the fraud has been perpetrated, is functioning.

3.4 Frauds committed by unscrupulous borrowers

3.4.1 It is observed that a large number of frauds are committed by unscrupulous borrowers including companies, partnership firms/proprietary concerns and/or their directors/partners by various methods including the following:

- (i) Fraudulent discount of instruments or kite flying in clearing effects.
- (ii) Fraudulent removal of pledged stocks/disposing of hypothecated stocks without the bank's knowledge/inflating the value of stocks in the stock statement and drawing excess bank finance.
- (iii) Diversion of funds, lack of interest or criminal neglect on the part of borrowers, partners etc. in adhering to financial discipline and managerial failure with malafide intent leading to the unit becoming sick and laxity in effective supervision over the operations in borrowal accounts on the part of the bank functionaries rendering the advance difficult of recovery and resulting in financial loss to the bank.

3.4.2 In respect of frauds in borrowal accounts involving an amount of Rs. 5 lakh and above, additional information as prescribed under Part B of FMR – 1 may also be furnished.

3.5 Cases of attempted fraud

Cases of attempted fraud, where the likely loss would have been Rs. 25 lakh or more, had the fraud taken place, should be reported to the Frauds Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, Central Office, Mumbai indicating the modus operandi and how the attempted fraud was detected. Such cases should not be included in the other returns to be submitted to the Reserve Bank.

4 QUARTERLY RETURNS

4.1 Report on Frauds Outstanding (FMR-2)

- 4.1.1 Banks should submit a copy each of the Quarterly Report on Frauds Outstanding in the format given in FMR – 2 to the Regional Office of Urban Banks Department of the Reserve Bank under whose jurisdiction the Head Office of the bank falls within 15 days of the end of the quarter to which it relates. Banks which may not be having any fraud outstanding as at the end of a quarter should submit a ***nil*** report.
- 4.1.2 Part – A of the report covers details of frauds outstanding as at the end of the quarter. Parts B and C of the report give category-wise and perpetrator-wise details of frauds reported during the quarter respectively. The total number and amount of fraud cases reported during the quarter as shown in Parts B and C should tally with the totals of columns 4 and 5 in Part – A of the report.
- 4.1.3 Banks should furnish a certificate, as part of the above report, to the effect that all individual fraud cases of Rs. 1 lakh and above reported to the Reserve Bank in FMR – 1 during the quarter have also been put up to the bank's Board and have been incorporated in Part – A (columns 4 and 5) and Parts B and C of FMR – 2.

4.2 Progress Report on Frauds (FMR-3)

- 4.2.1 Banks should furnish case-wise quarterly progress reports on frauds involving Rs. 1 lakh and above in the format given in FMR–3 to the Regional Office of Urban Banks Department of Reserve Bank under whose jurisdiction the bank's Head Office is situated, within 15 days of the end of the quarter to which it relates.
- 4.2.2 In case of frauds where there are no developments during a quarter, a list of such cases with brief description including name of branch and date of reporting may be furnished in Part – B of FMR – 3.

4.2.3 If there are no fraud case involving Rs.1 lakh and above outstanding, banks may submit a nil report.

5 REPORTS TO THE BOARD

5.1 Reporting of Frauds

5.1.1 Banks should ensure that all frauds of Rs. 1 lakh and above are reported to their Boards promptly on their detection.

5.1.2 Such reports should, among other things, take note of the failure on the part of the concerned branch officials and controlling authorities, and consider initiation of appropriate action against the officials responsible for the fraud.

5.2 Quarterly Review of Frauds

5.2.1 Information relating to frauds for the quarters ending March, June and September may be placed before the Board of Directors during the month following the quarter to which it pertains.

5.2.2 These should be accompanied by supplementary material analysing statistical information and details of each fraud so that the Board would have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.

5.2.3 A separate review for the quarter ending December is not required in view of the Annual Review for the year-ending December prescribed below.

5.3 Annual Review of Frauds

5.3.1 Banks should conduct an annual review of the frauds and place a note before the Board of Directors for information. The reviews for the year-ended December may be placed before the Board by the end of March of the following year.

5.3.2 The main aspects which may be taken into account while making such a review may include the following:

- (a) Whether the systems in the bank are adequate to detect frauds, once they have taken place, within the shortest possible time.

- (b) Whether frauds are examined from staff angle and, wherever necessary, the staff side action is taken without undue delay.
- (c) Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible without undue delay.
- (d) Whether frauds have taken place because of laxity in following the systems and procedures or loopholes in the system and, if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned or the loopholes are plugged.
- (e) Whether frauds are reported to the local Police for investigation.

5.3.3 The annual reviews should also, among other things, include the following details:

- (a) Total number of frauds detected during the year and the amount involved as compared to the previous two years.
- (b) Analysis of frauds according to different categories detailed in Paragraph 2.1 and also the different business areas indicated in the Quarterly Report on Frauds Outstanding (vide FMR – 2).
- (c) Modus operandi of major frauds reported during the year along with their present position.
- (d) Detailed analyses of frauds of Rs. 1 lakh and above.
- (e) Estimated loss to the bank during the year on account of frauds, amount recovered and provisions made.
- (f) Number of cases (with amounts) where staff are involved and the action taken against staff.
- (g) Time taken to detect frauds (number of cases detected within three months, six months, one year, more than one year of their taking place).
- (h) Position with regard to frauds reported to the Police.
- (i) Number of frauds where final action has been taken by the bank and cases disposed of.
- (j) Preventive/punitive steps taken by the bank during the year to reduce/minimise the incidence of frauds. Whether systems and procedures have been examined to ensure that weaknesses are addressed.

6 GUIDELINES FOR REPORTING FRAUDS TO POLICE

Banks should follow the following guidelines for reporting of frauds such as unauthorised credit facilities extended by the bank for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities:

In dealing with cases of fraud/embezzlement, banks should not merely be motivated by the necessity of recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished.

Therefore, as a general rule, the following cases should invariably be referred to the State Police:

- (i) Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of bank staff/officers.
- (ii) Cases of fraud committed by bank employees, when it involves banks' funds exceeding Rs. 10,000/-.

7 CLOSURE OF FRAUD CASES

Banks will report to the concerned Regional Office of Urban Banks Department of Reserve Bank of India under whose jurisdiction the Head Office of the bank falls, the details of the fraud cases closed along with reasons for the closure where no further action was called for. Fraud cases closed during the quarter are required to be reported in quarterly return FMR-2.

Banks should report only such cases of frauds as closed where the actions as stipulated below are complete:

- A. The fraud cases pending with Police / Courts are finally disposed off.
- B. The examination of staff accountability has been completed.
- C. The amount of fraud has been recovered or written off.
- D. Insurance claim, wherever applicable, has been settled.
- E. The bank has reviewed the systems and procedures, identified the causative factors and plugged the lacunae and the fact of which has been certified by the board.

Banks should also pursue vigorously with the Police/Court for final disposal of the pending cases especially where the banks have completed staff side action.

8 REPORTING CASES OF THEFT, BURGLARY, DACOITY AND BANK ROBBERIES

8.1 Banks should arrange to report instances of bank robberies, dacoities, thefts and burglaries to the following authorities immediately on their occurrence by fax / e-mail. The report should include details of modus operandi and other information as at columns 1 to 10 of FMR – 4.

- (a) The Chief General Manager – in – Charge, Reserve Bank of India, Urban Banks Department, Central Office, Garment House, Worli, Mumbai 400 018.
- (b) A copy to be endorsed to the concerned Regional Office of Reserve Bank of India, Urban Banks Department of the state in which the dacoity has taken place.

8.2 Banks should also submit to concerned Regional Office of the Reserve Bank of India, Urban Banks Department under whose jurisdiction the bank's Head Office is situated a quarterly consolidated statement in the format given in FMR – 4 covering all cases pertaining to the quarter. This may be submitted within 15 days of the end of the quarter to which it relates.

8.3 Banks which do not have any instances of theft, burglary, dacoity and / or robbery to report during the quarter, may submit a *nil* report.

FMR – 1

Report on Actual or Suspected Frauds in Banks

(Vide Paragraph 3)

Part A: Fraud Report

1.	Name of the bank	
2.	Fraud number ⁱ	
3.	Details of the branch ⁱⁱ	
	(a) Name of the branch	
	(b) Branch type	
	(c) Place	
	(d) District	
	(e) State	
4.	Name of the Principal party/account ⁱⁱⁱ	
5.a	Area of operation where the fraud has occurred ^{iv}	
5.b	Whether fraud has occurred in a borrowal account ?	Yes/No
6.	Nature of fraud ^v	
7.	Total amount involved ^{vi} (Rs. In lakh)	
8.a	Date of occurrence ^{vii}	
b	Date of detection ^{viii}	
c	Reasons for delay, if any, in detecting the fraud	
d	Date on which reported to RBI ^{ix}	

e	Reasons for delay, if any, in reporting the fraud to RBI	
9.a	Brief history	
b	modus operandi (be precise, clear in description)	
10.	Fraud committed by	
a	Staff	Yes/No
b	Customers	Yes/No
c	Outsiders	Yes/No
11.a	Whether the controlling office (Regional/Zonal) could detect the fraud by a scrutiny of control returns submitted by the branch	Yes/No
b	Whether there is need to improve the information system	Yes/No
12.a	Whether internal inspection/audit (including concurrent audit) was conducted at the branch(es) during the period between the date of first occurrence of the fraud and its detection.	Yes/No
b	If yes, why the fraud could not have been detected during such inspection/audit.	
c	What action has been taken for non-detection of the fraud during such inspection/audit	
13.	Action taken/proposed to be taken	
a	Complaint with Police/ Investigative agency	
	i)Whether any complaint has been lodged with the Police/ Investigative agency	Yes/No

	ii) If yes, name of office/ branch of Investigative agency	
1	Date of reference	
2	Present position of the case	
3	Date of completion of investigation	
4	i) Date of submission of investigation report by Police/Investigative agency	
	ii) If not reported to Police/ Investigative agency, reasons therefore	
b	Recovery suit with Co-op. Court/Court	
	i) Date of filing	
	ii) Present position	
c	Insurance claim	
	i) Whether any claim has been lodged with the insurance company	Yes/No
	ii) If not, reasons therefor	
d	Details of staff-side action	
	i) Whether any internal investigation has been/is proposed to be conducted	Yes/No
	ii) If yes, date of completion	
	iii) Whether any departmental enquiry has been/is proposed to be conducted	
	iv) If yes, give details as per format given below:	

v) If not, reasons therefor

No.	Name	Desgn.	Whether suspended	Date of issue of charge sheet	Date of commencement of domestic inquiry	Date of completion of inquiry	Date of issue of final orders	Punishment awarded	Details of prosecution/conviction/acquittal, etc.

e Steps taken/proposed to be taken to avoid such incidents

14. (a) Total amount recovered

i) Amount recovered from party/parties concerned

ii) From insurance

iii) From other sources

(b) Extent of loss to the bank

(c) Provision held

(d) Amount written off

15. Suggestions for consideration of RBI

Part B: Additional Information on Frauds in Borrowal Accounts

(This part is required to be completed in respect of frauds in all borrowal accounts involving an amount of Rs. 5 lakh and above)

1. (a) Business address of the party in whose account fraud has taken place

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- (b) Names and addresses of the proprietors/ partners/ directors

No.	Name of proprietor/ partner/ director	Address

2. Details of account/s

No.	Nature of account	Date of sanction	Sanctioned Limit	Balance outstanding

3. Details of associate concerns

No.	Name and address of associate concern	Name of proprietor/ partner/ director	Address of proprietor/ partner/ director

Category	Cases outstanding as at the end of the previous quarter		New cases reported during the current quarter		Cases closed during the current quarter		Cases outstanding as at the end of the quarter		Total amount recovered	Provision held for cases outstanding as at the end of the Qtr.	Amount Recovered during the current Qtr.	Amount Written off during the current quarter
	No.	Amount	No.	Amount	No.	Amount	No. (2+4-6)	Amount (3+5-7)				
1	2	3	4	5	6	7	8	9	10	11	12	13
Total												

Note: For Indian banks with overseas offices/branches, the above figures relate to the domestic position. The figures in respect of overseas branches/offices may be shown in a separate sheet in the same format as above.

Part – C: Perpetrator-wise classification of frauds reported during the quarter _____

Name of the bank _____

	Staff		Customers		Outsiders		Staff and Customers		Staff and Outsiders		Customers and Outsiders		Staff, Customers and Outsiders		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Less than Rs. 1 lakh																
Rs. 1 lakh and above but less than Rs. 100 lakh																
Rs. 100 lakh and above																
Total																

Note: 1. The above category-wise classification is mostly based on various provisions of the Indian Penal Code.

2. All amounts may be furnished in Rs. lakh up to two decimals.

Certificate

Certified that all frauds of Rs. 1 lakh and above reported to the Reserve Bank during the last quarter have also been reported to the bank's Board and have been incorporated in Part A (Columns 4 and 5) and Parts B and C above.

Signature:

Name and Designation:

Place:

Date:

Part – C: Case-wise details of progress

Name of party/account: _____

Name of branch/office: _____

**Amount involved
(Rs in lakh)** _____

Fraud No : _____

1.	Date of first reporting	
2.a	Date of filing recovery suit with Co-op. Court/Court	
	Present position	
3.	Recoveries made up to the end of the last quarter (Rs. In lakh)	
4.	Recoveries made during the quarter (Rs. In lakh)	
	a) From party/parties concerned	
	b) From insurance	
	c) From other sources	
5.	Total recoveries (3+4) (Rs. in lakh)	
6.	Loss to the bank (Rs in lakh)	
7.	Provision held (Rs in lakh)	
8.	Amount written off (Rs in lakh)	
9.	a) Date of reporting case to Police/ Investigative agency	
	b) Date of completion of investigation	

c) Date of submission of investigation report

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10. Details of staff-side action

No.	Name	Desgn.	Whether suspended	Date of issue of charge sheet	Date of commencement of domestic inquiry	Date of completion of inquiry	Date of issue of final orders	Punishment awarded	Details of prosecution /conviction/ acquittal, etc.
1.									
2.									
3.									
4.									

11. Other developments

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12. Whether case closed during the quarter

Yes/No

13. Date of closure:

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FMR – 4

Report on Dacoities/Robberies/Theft/Burglaries

(Vide Paragraph 7)

Name of the bank _____

Report for the quarter ended _____

Name of branch	Address	District	State	Type of branch ^x	Risk classification ^{xi}	Whether a currency chest branch	Type of Case ^{xii}	Date and time of occurrence	Amount involved (Rs. In lakh)	Amount recovered (Rs. In lakh)	Insurance claim settled (Rs. In lakh)	Arrested	
												Staff	Robbers
1	2	3	4	5	6	7	8	9	10	11	12	13	14

Killed			Injured		Convicted		Compensation paid (Actual in Rs.)		Action taken	Crime No. and name of police station at which offence has been registered	Remarks
Staff	Robbers	Others	Staff	Others	Staff	Robbers	Staff	Others			
15	16	17	18	19	20	21	22	23	24	25	26

Instructions for compiling the Fraud Report (FMR 1):

ⁱ **Fraud number:** This has been introduced with a view to facilitate computerisation and cross-reference. The number will be an alphanumeric field consisting of the following: four alphabets (to indicate name of bank), two digits for the year (02, 03, etc.), two digits for the quarter (01 for January – March quarter, etc.) and the final four digits being a distinctive running number for the fraud reported during the quarter.⁴

ⁱⁱ **Name of the branch:** In case the fraud relates to more than one branch, indicate the name of only one branch where the amount involved has been the highest and/or which is mainly involved in following up the fraud. The names of the other branches may be given in the brief history/modus operandi against item number 9.

ⁱⁱⁱ **Name of party:** A distinctive name may be given to identify the fraud. In the case of frauds in borrowal accounts, name of the borrowers may be given. In the case of frauds committed by employees, the name(s) of the employee(s) could be used to identify the fraud. Where fraud has taken place, say, in clearing account/inter-branch account, and if it is not immediately possible to identify the involvement of any particular employee in the fraud, the same may be identified merely as “Fraud in clearing/inter-branch account”.

^{iv} **Area of operation where the fraud has occurred:** Indicate the relevant area out of those given in column 1 of statement FMR 2 (Part A) (Cash; Deposits (Savings/Current/Term); Non-

resident accounts; Advances (Cash credit/Term Loans/Bills/Others); Foreign exchange transactions; Inter-branch accounts; Cheques/demand drafts, etc.; Clearing, etc. accounts; Off-balance sheet (Letters of credit/Guarantee/Co-acceptance/Others); Others)

^v Nature of fraud: Select the number of the relevant category from the following which would best describe the nature of fraud: (1) Misappropriation and criminal breach of trust, (2) Fraudulent encashment through forged instruments/manipulation of books of account or through fictitious accounts and conversion of property, (3) Unauthorised credit facilities extended for reward or for illegal gratification, (4) Negligence and cash shortages, (5) Cheating and forgery, (6) Irregularities in foreign exchange transactions, (7) Others.

^{vi} Total amount involved: Amounts should, at all places, be indicated in Rs. lakh up to two decimal places.

^{vii} Date of occurrence: In case it is difficult to indicate the exact date of occurrence of fraud (for instance, if pilferages have taken place over a period of time, or if the precise date of a borrower's specific action, subsequently deemed to be fraudulent, is not ascertainable), a notional date may be indicated which is the earliest likely date on which the person is likely to have committed the fraud (say, January 1, 2002, for a fraud which may have been committed anytime during the year 2002). The specific details, such as the period over which the fraud has occurred, may be given in the history/modus operandi.

^{viii} Date of detection: If a precise date is not available (as in the case of a fraud detected during the course of an inspection/audit or in the case of a fraud being reported such on the directions of the Reserve Bank), a notional date on which the same may be said to have been recognised as fraud may be indicated.

^{ix} Date of reporting to RBI: The date of reporting shall uniformly be the date of sending the detailed fraud report in form FMR 1 to the RBI and not any date of fax or DO letter that may have preceded it.

^x Rural/Semi-urban/Urban/Metropolitan

^{xi} High/Normal/Low

^{xii} Dacoity/Robbery/Theft/Burglary