

# **Report of the Standing Committee on International Financial Standards and Codes May 2002**

## Constitution of the Standing Committee

In order to facilitate positioning of international financial standards and codes in relevant areas of the financial system in India and to guide the overall process of implementation of appropriate changes in respect of various segments of the financial system, Reserve Bank of India (RBI) in consultation with Government of India, in December 1999, constituted a 'Standing Committee on International Financial Standards and Codes' under the Chairmanship of Deputy Governor, RBI and Secretary, Economic Affairs, Government of India as Alternate Chairman.\*

The Committee was entrusted with the task of identifying and monitoring developments in global standards and codes being evolved by standard setting bodies as part of the efforts to create a sound international financial architecture and consider all aspects of applicability of these standards to the Indian financial system. The Committee was also asked to consider plotting a road map for aligning India's standards and practices as necessary and desirable in the light of evolving international practices, periodically reviewing the status and progress in regard to the codes and practices, and reaching out its reports on the above to all concerned organisations in public or private sectors (Annexure I).

## Constitution of Advisory Groups

Early in 2000, the Standing Committee constituted Advisory Groups in ten core subject areas, which broadly encompassed the twelve key areas prescribed by Financial Stability Forum (FSF), pertaining to the financial system. These were: Transparency in Monetary and Fiscal Policies, Fiscal Transparency, Insurance Regulation, Bankruptcy Laws, Corporate Governance, Data Dissemination, Payments and Settlement System, Banking Supervision, Securities Market Regulation and Accounting and Auditing. The area, namely, 'Market Integrity' associated with the forty recommendations of the Financial Action Task Force (FATF) on money laundering was subsequently covered by an internal Technical Group constituted in the RBI. These Advisory Groups were entrusted with the following tasks of (i) studying in detail, the present status of applicability and relevance and compliance of relevant standards and codes, (ii) reviewing the feasibility of compliance and the time frame over which this could be achieved given the prevailing legal and institutional practices, (iii) comparing the levels of adherence in India vis-à-vis in industrialised and also emerging economies particularly to understand India's position and to prioritize actions on some of the more important codes and standards, and (iv) chalking out a course of action for achieving the best practices.

All Advisory Groups were chaired by eminent experts not generally holding official positions in Government or other regulatory bodies. While the Chairmen of these Advisory Groups were identified and nominated by the Standing Committee, taking into account the experience and expertise, the choice of members of these Advisory Groups, was completely left to the Chairmen of Advisory Groups. The members were generally non-official experts in

relevant subject areas. The Groups had, however, the option of including officials from the Government, RBI, Securities and Exchange Board of India, etc., as special invitees. They also had the benefit of deliberations with market participants, members from professional bodies as well academics. This arrangement gave the Advisory Groups an independent and impartial status and allowed them to make critical assessment of the relevance as well as state of compliance with standards and codes and give unbiased recommendations with regard to the feasibility of compliance and the necessity of achieving best practices in the areas covered by them. In order to facilitate exchange of information and expertise on matters of mutual interest, the Advisory Groups had the option of having interactions/consultations amongst themselves and many did exercise the option. The Advisory Groups also jointly deliberated on overlapping issues in certain subject areas to evolve a consistent approach.

The work of the Advisory Groups in some cases happened to continue alongside similar subjects addressed by groups constituted by the Government or other regulatory bodies. In any case, the work of the Advisory Groups was considered unprejudiced and non-intrusive to any such official or non-official initiatives taken by others. The Advisory Groups were requested to take cognisance of these parallel efforts and to provide inputs, wherever necessary. All ten Advisory Groups have already submitted their reports to the Standing Committee. The Standing Committee has published these Reports with a Foreword by the Chairman and Alternate Chairman and has widely disseminated the Reports including by posting them on the RBI website [www.rbi.org.in].

### Meetings of the Standing Committee

In all, the Standing Committee held five meetings, including meetings of the Finance Minister and Governor, RBI with the Chairmen of Advisory Groups.<sup>7</sup> The Finance Minister in his meeting, emphasized that he would like to see India as quickly as possible among the group of countries with best standards and practices and urged the Groups to identify areas of current weaknesses and remove them. He also suggested that the Groups should work towards removing and rectifying the weaknesses and adopting international standards to suit India's constitutional norms. He also assured that Ministry of Finance would pursue the implementation vigorously with concerned regulators and institutions so that all of them work in a coordinated manner. It was decided in the meeting of October 20, 2000 that the Standing Committee would prepare an overarching Report synthesizing the recommendations of the Advisory Groups, and indicating the status. Dr.T.C.A.Anant, Professor, Delhi School of Economics and a Member of the Advisory Group on Bankruptcy Laws was requested to undertake this task.

The purpose of the Synthesis Report was to describe the major recommendations of the Advisory Groups, examine their inter-relations and implications for follow-up action as well as detail some of the subsequent developments.

The draft Synthesis Report was discussed in the final meeting of the Standing Committee, where Governor, Reserve Bank of India addressed the Chairmen of Advisory Groups. Governor

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<sup>7</sup> The meetings were held on January 13, 2000, March 24, 2000, April 22, 2000, October 20, 2000 and February 22, 2002. Finance Minister addressed the meeting of the Standing Committee and Chairmen of Advisory Groups on April 22, 2000. The Governor, RBI addressed a similar meeting on February 22, 2002.

complimented the Chairman of Advisory Groups for the exemplary work done by the Groups. Governor referred to a meeting of Governors of Asian Central Banks at Hongkong wherein some of the Governors had expressed appreciation over the technical expertise in the work of financial standards and codes in India. Even within the country, the Reports have received wide acclaim from scholars, analysts, Ministries and Parliamentarians. Some federations in the private sector have already conducted seminars on international standards and codes.

#### Standards and Codes: Background

In the light of Asian crises, the need for fundamental changes in the international financial architecture acquired great urgency. Many proposals were made for strengthening the international financial system and the focus of these proposals was broadly on identifying indicators of financial vulnerability, development of sound international codes, standards and best practices, introduction of pre-emptive measures and safety nets, and designing a framework for crisis management. In this context, development of international standards and codes is one important element of the overall effort in the aftermath of the Asian crisis to reform the international financial architecture.

As part of the effort to strengthen financial systems and improve coordination among the agencies responsible for them, the Financial Stability Forum (FSF)<sup>@</sup> was established in April 1999. Its mandate is to promote international financial stability by improving the functioning of markets and reducing systemic risk through information exchange and international cooperation in supervision and surveillance of financial markets. The FSF has drawn together various standard-setting bodies which were constituted by means of cooperation among central banks, international financial institutions, national authorities and international supervisory and regulatory bodies.

The FSF has posted on its website the Compendium of Standards, which serves as a common reference for various standards. A set of 12 standards has been highlighted by the FSF as key for sound financial systems and deserving of consideration for priority implementation. The key standards are broadly accepted as representing minimum requirements for good practice. The 12 key areas are organised under three broad headings, viz., macroeconomic policy and data transparency (covering monetary and financial policy transparency, fiscal policy transparency, data dissemination and data compilation), institutional and market infrastructure (covering insolvency, corporate governance, accounting, auditing, payment and settlement and market integrity) and financial regulation and supervision (covering banking supervision, securities regulation, and insurance supervision).<sup>1</sup>

#### **India's Association with the Global Efforts in Fostering International Standards and Codes**

India has been closely associated with various standard setting bodies and has been taking active part in the work of several key international fora devoted to the task of developing and promoting implementation of financial standards and codes. Although India is not a member

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<sup>@</sup> Established by G-7 with the purpose of promoting international financial stability, improving functioning of markets and reducing systemic risk through enhanced information exchange and international cooperation in financial market supervision and surveillance.

<sup>1</sup>The 12 key areas have been covered by ten Advisory Groups and one Technical Group, constituted by the Standing Committee.

of the FSF, it was one of the countries specially requested to help the Forum in Task Force on the Implementation of Standards and to participate in the Joint Committee Group meeting. The Task Force was set up to explore key issues relating to standards, codes and core principles and consider the strategy for fostering the implementation of international standards relevant for a sound financial system.

The Reserve Bank was also represented at the Follow Up Group on Incentives for Implementation of Standards instituted by the FSF following submission of the Task Force Report. The Group ascertained how various elements of market and official incentives could best reinforce one another within the framework of the overall strategy to foster implementation of standards.

G-20 was formed in September 1999, comprising G-7, 11 other countries (including India) and two institutional representatives. G-20 promotes consistency and coherence in the various efforts aimed at reforming and strengthening the international financial system, and addresses issues that go beyond the responsibilities of any one organization. India has been involved in almost all the discussions where developing countries have been represented. The Chair to the G-20 is held by rotation. Canada held the chair from 1999-2001. Currently, India holds the Chair to the G-20 and the Finance Minister is the Chairman of the G-20. India is represented in the G-20 by the Ministry of Finance and RBI.

In 1997, in consultation with the supervisory authorities of a few non-G-10 countries including India, the Basel Committee on Banking Supervision (BCBS) drew up the 25 'Core Principles for Effective Banking Supervision' aimed at guiding supervisory authorities seeking to strengthen their current supervisory regime.

From its inception, India was also represented on the Group on Joint Task Force on Securities Settlement Systems constituted by the Committee on Payment and Settlement Systems (CPSS) and the International Organisation of Securities Commissions (IOSCO). The CPSS and IOSCO have since released the report of the Task force in January 2001 for public consultation.

The Reserve Bank is a member of the Core Principles Liaison Group (CPLG) constituted by the Basel Committee on Banking Supervision (BCBS) and is also represented in the Working Group on Capital (WGC) set up by the CPLG.

India is one of the countries that has sought participation in the joint IMF-World Bank Financial Sector Assessment Programme (FSAP). As part of the Reports on Observance of Standards and Codes (ROSCs), India's compliance in respect of standards and codes has already been assessed in respect of six codes, viz., Monetary and Financial Policy Transparency, Fiscal Transparency, Banking Supervision, Securities Market Regulation, Payment and Settlement System and Corporate Governance. Currently, assessment is being undertaken with regard to Special Data Dissemination Standards.

### Summary of Advisory Groups Reports

The Advisory Group on Transparency in Monetary and Financial Policies is of the view that there is a need for transparent setting of objectives of the monetary policy by the

Government with provisions for flexibility subject to making it public and placing it on the table of the House by seeking discussion/deliberation on these objectives in Parliament. This would reduce the conflict between the Government and RBI. The Advisory Group recommended legislative changes in the RBI Act so as to facilitate a mechanism for effective monetary policy and ensure that market developments could be fostered providing facilities to RBI to deal with any violation of the regulatory framework. While analysing the process of monetary policy formulation, the Group observed that there is a strong interaction between RBI's responsibilities in the areas of monetary policy and internal debt management. This led to a situation of monetary policy function becoming somewhat subservient to debt management. Debt Management function puts RBI in a situation of direct conflict of interest. While discussing transparency, accountability and autonomy of RBI, the Advisory Group is of the view that RBI needs by way of autonomy, headroom to operate monetary policy and this is possible when debt management is separated from monetary policy and the fiscal situation is in reasonable balance. RBI would, however, continue to maintain orderly conditions in the government securities market by operating in the secondary market via open market operations, an important instrument of monetary policy. The Group suggested that RBI and Government should progressively work towards greater clarity in publicly setting out the objectives of monetary policy. In regard to setting up of objectives of monetary policy, the Group is of the view that besides making it easy for the public to comprehend the instruments and objectives of monetary policy, there is merit in authorities clarifying issues in monetary and financial policies in simple language to general public. The Advisory Group recommended for setting up a Monetary Policy Committee (MPC) on the lines of Board for Financial Supervision (BFS) from the next financial year. Also, MPC should hold meeting on monthly basis on a predetermined date and issue a short statement immediately after the meeting.

The overall assessment of the Advisory Group on Fiscal Transparency is that current fiscal practices at the central government level satisfy the minimum requirements of the code in many areas, and though there are deficiencies in some important areas, many of these will be substantially addressed once the Fiscal Responsibility and Budget Management Bill (FRBMB) is enacted. The Report recommends amplifying the scope of the FRBMB to include the essential elements of a budget law, and to provide for public availability of information on macro-economic assumptions regarding GDP growth, inflation, export and import growth, current account deficit, saving and investment rates, and to project major categories of expenditure and revenues. The other important recommendations of the Advisory Group relate to increased reporting on contingent liabilities, major tax expenditures, quasi fiscal activities, fuller discussion of the consolidated position of central and state governments and availability of information on the overall public sector balance, as also simplification of tax structure, with greater use of information technology. The Report observed that fiscal practices at the state level were generally behind the standards achieved at the central level and the Advisory Group has suggested that the State Finance Secretaries Forum could determine a set of minimum standards on transparency which all state governments should achieve within a three-year period.

The Advisory Group on Data Dissemination has examined in detail the degree of India's compliance of the Special Data Dissemination Standards (SDDS). It observed that India is already fully compliant in respect of practically all items in the SDDS. The Advisory Group, however, noted that in case of international reserves and foreign currency liquidity, many

countries do not give all the information as per new data template. The Group observed that the data on foreign exchange reserves and forward liabilities put out by India under the template compares favourably with many other countries. Therefore, the Group suggested that a view has to be taken for disclosing sensitive information based on the disclosure of information as practiced by many other developing countries, in the background of country's market depth and development. Besides, the Group felt that dissemination arrangements under SDDS would have to be strengthened with hyper-links between various data sources in India and IMF's electronic bulletin board. Also, the Group took the opportunity of making a separate set of recommendations to improve the general standard of dissemination of India's financial sector statistics.

The Advisory Group on Payment and Settlement System submitted its Report in three parts. Part I critically examined two issues viz. Status of clearing house operations as well as responsibilities of the RBI in the light of the consultative report on "Core Principles for Systemically Important Payment Systems" released by the Bank for International Settlement (BIS) first in December 1999 followed by the updated version in July 2000. It recommended, *inter alia*, extensive legal reforms especially empowering the RBI to supervise the payment and settlement system, institution of a framework ensuring at least Lamfalussy standards for the deferred net settlement (DNS) system and such suitable framework for the real-time gross settlement (RTGS) systems and spread of electronic-based transactions through appropriate price incentives. The Group was of the view that the RBI should eventually come out of the role of a payment systems provided except for funds settlement. In Part II, the Group examined the status of existing payment and settlement systems in the Indian equity and debt markets including government securities market and has suggested ways for improvements in compliance with the G-30 recommendations on securities settlement system. The Group has recommended, *inter alia*, introduction of rolling settlement in the liquid segment of the equity market, and allowing current account facility with the RBI to clearing corporation for ensuring settlement facility on the books of the RBI as an *interim* measure pending eventual grant of limited purpose banking license to them with appropriate prudential guidance thereon. The Group also recommended the building up of an institutional mechanism for centralised collection of information, their dissemination to market participants and prudential guidelines for implementing cross-margining across markets in order to deal with problems arising from participants undertaking multiple exposure in various markets, and permitting securities borrowing and lending system for institutions in both equity and debt segments in India. In respect of Part III, the Group recommended a set of actions, which include establishment of a Clearing Agent abroad by the Clearing Corporation of India (CCI), setting up of a separate guarantee fund for the foreign exchange clearing, appropriate integration between the participating banks and the CCI and their interface with the real-time gross settlement (RTGS) system.

After reviewing the status of the Accounting Standards (AS) issued by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) in relation with two sets of international benchmarks viz., International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and the Generally Accepted Accounting Principles of the United States (US GAAP), the Advisory Group on Accounting and Auditing found that 19 accounting standards issued so far by the ICAI are on par with those of IAS. In case of 2 standards of IAS, guidance notes have been issued whereas for 11 other international accounting standards, work is still under progress. However, 2 other standards are

not found relevant for India. The Group also found that statements on Standards Auditing Practices (SAPs) issued by the Auditing Practices (APC) of the ICAI are anchored to the corresponding standards issued by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC). In its agenda, the Group addressed the issues pertaining to bridging the gap between the Indian Accounting Standards and IASC, restructuring the Accounting Standards Board of ICAI, the need for a single standards setting authority, the need for convergence of corporate and tax laws with various accounting standards and to position an effective implementation procedure for the accounting standards.

The Advisory Group on Bankruptcy Laws studied in detail the existing status of the legislation in relation to international standards on bankruptcy laws and the position obtaining in other countries as also cross border insolvency issues. The recommendations, *inter alia*, consisted of passing of a new legislation on a comprehensive bankruptcy code, and introduction of a professional bankruptcy institution known as the “Trustee”, repeal of Sick Industrial Company (Special Provisions) Act and abolition of BIFR. The Report also has dealt with an effective trigger point for the operations of the bankruptcy code, special provisions for banks and financial institutions, cross-border bankruptcy principles and an orderly and effective insolvency procedures that would facilitate efficient servicing of the need of the corporations requiring timely intervention of restructuring and a very efficient exit system which maximizes the protection of the interest of the creditors and the investors with quick liquidation procedures and well laid down game rule for dispensation of the claims. The Report also covers among others, a comparative analysis of the Indian legal situation and bankruptcy laws vis-à-vis the USA and U.K., and international standards and Indian situation in respect of UNCITRAL model law on Cross-Border Insolvency, EC directive on finality in payment and securities settlement system and Cross-Border Insolvency Concordat Committee J.

The Advisory Group on Corporate Governance, comprehensively reviewed the models of corporate governance prevailing in East Asian countries, U.S., U.K., and other European Countries. The Report observed that since most of the Indian companies belong to the “insider” model of East Asia, it is very essential to bring quick reforms in the corporates/banks/financial institutions/public sector enterprises to make them more autonomous and professional. The recommendations of the Group cover areas of responsibilities of the Board to stakeholders/shareholders, selection procedures for the appointment of directors of banks, various committees to oversee the practice of corporate governance, disclosure and transparency standards, role of shareholders, etc.

Among other things, the Advisory Group on Banking Supervision has reviewed, in detail, the BCBS core principle for effective banking supervision; the BIS codes on corporate governance in banks, internal control, management of credit risk, loan accounting, transparency and disclosures, financial conglomerates, and supervision of cross-border banking to arrive at its recommendations duly taking into account the Indian context vis-à-vis the BCBS norms. While the Group focused largely on the shortcomings of the Indian system vis-à-vis international best practices in making its recommendations, it was of the view that given the level of complexity and development of the Indian banking sector, the level of compliance with the standards and codes is of a high order. In the opinion of the Group, wherever there are significant gaps, these can be remedied within a reasonable time frame and, as such, are not causes for immediate

concern provided that necessary amendments to laws, wherever required, are put in place without delay. The Group identified reasonable timeframes in most of these cases to implement different changes.

In its Report, the Advisory Group on Securities Market Regulation reviewed the evolution of the securities regulatory framework, analysed India's reform initiatives and their impact and identified some important issues and lacunae of the current regulatory structure which could form the basis for the future reform agenda. Furthermore, the Group dealt in some detail, the degree to which the Indian securities regulatory framework are in line with the principles enunciated by the IOSCO, so as to address the key objectives of protecting investors, ensuring that markets are fair, efficient and transparent, and reducing systemic risk. The recommendations of the group cover *inter alia* enforcement of securities regulation, co-operation in regulation, self-regulation, prudential issues, legal issues, market infrastructure and mutual funds.

After evaluating the present Indian insurance legislation on the basis of international standards and codes, the Advisory Group on Insurance Regulation, in the Part I of its Report, dealt with licensing of new companies in India in the light of standards and codes prescribed by the International Association of Insurance Supervisors (IAIS) and the twenty Insurance Guidelines issued by the OECD for its members. The Part II of the Report, deliberated on solvency and actuarial issues. The Report suggested measures to improve the effectiveness and efficiency of insurance regulation.

The Technical Report on 'Market Integrity' provides an assessment of India's position with respect to G-7 principles on Market Integrity and recommendations of the Financial Action Task Force (FATF) on anti-money laundering and terrorist financing. The Report provides an overview of international efforts to combat money laundering, briefly reviews the existing laws and regulations for the purposes of detection and law enforcement against criminal activities in financial sector and notes the recent initiatives taken for prevention of money laundering. Future course of action required to be taken by Government, RBI and other regulators in terms of legal changes, policy decisions, and adoption of procedures for more effective systems, consistent with international norms in this regard has been outlined. Notable among these are renewed emphasis by RBI on "Know Your Customer" guidelines with anti-money laundering focus and adoption by banks of policy, procedures, and controls to prevent misuse of the banking system by money launderers and to ensure adherence to applicable international norms in this regard. Delineation of the respective roles of financial supervisory agencies and enforcement authorities, and effective coordination between them. The detailed assessment in respect of India's compliance with the FATF recommendations reveals that India will be compliant with most of the recommendations after enactment of the Prevention of Money Laundering Bill.

### Synthesis Report

In November 2001, Professor T.C.A. Anant was given the task of preparing the Synthesis Report (enclosed). The objective of the Report was to broadly encompass the major observations and recommendations of the Advisory Groups, identify the inter-linkages between different standards as observed through Advisory Groups' Reports, provide an overarching view



while listing the specific legal reforms arising out of the Advisory Groups' recommendations and identify the follow-up action required by the concerned regulatory agencies and other authorities.

The Synthesis Report classified the discussions of the Advisory Groups' Reports into three categories namely: Macroeconomics Policy and Data Transparency (covering Transparency in Monetary and Financial Policies, Transparency in Fiscal Policy, and Data Dissemination); Institutional and Market Infrastructure (covering Bankruptcy Laws, Corporate Governance, Accounting and Auditing Standards, and Market Integrity); and Financial Regulation and Supervision (consisting of Payment and Settlement System, Banking Supervision, Securities Market Regulation and Insurance Regulation).

The Synthesis Report also provides three comprehensive annexures, the first of which details the major legislative changes recommended by the Groups in terms of acts and laws covered, the second describes the legislative changes suggested Group-wise, while the third lists out some major non-legislative changes in procedures, rules and practices as highlighted by the Advisory Groups.

After summarising the major recommendations of the Advisory Groups, the Synthesis Report highlights a number of overlapping issues that arise because of the inherently interconnected nature of the subjects. Some key overlapping issues highlighted by the Synthesis Report relate to Monetary and Financial Policies and Fiscal Transparency, Corporate Governance and Banking Supervision, Payment and Settlement System and Securities Market Regulation, Accounting and Auditing and Banking Supervision Advisory Groups. The Groups on Payment and Settlement System, Securities Markets Regulation, Insurance Regulation and Banking Supervision also noted the issues arising out of regulatory overlaps.

Finally, the Synthesis Report notes that even as the Advisory Groups were formulating their reports, concurrent development and policy and international events were changing some of the basis for the discussion. The Report examines the issues that arise out of such developments and further explores the implication of the implementation of the Reports of the Groups.

#### Future Course of Action

The implementation of the recommendations of Advisory Groups in relevant sectors would require a co-ordinated approach based on elements of consensus, incentives, technical support, resources and encouragement to concerned institutions and regulatory bodies. As mentioned above, the detailed review of the Groups recommendations has thrown up a number of areas of legislative reform. These have been outlined in Annexures III and IV of the Synthesis Report. These Annexures indicate the changes in terms of recommendations to relevant Acts, new legislations required as well as non-legislative proposals at the level of subordinate rules and practices of the various regulatory agencies. Thus, the major legislative changes recommended by the Groups cover Amendments to the RBI, Securities and Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Companies, Banking Regulation, Securities Contract Regulation, Negotiable Instruments, Information Technology, Insurance and Chartered Accountants Acts, among others. In addition, new legislations on fiscal responsibility,

prevention of money laundering (already proposed), financial fraud (under discussion) and payment and settlement system (under processing) would be required.

Furthermore, it will be observed from Annexure V to the Synthesis Report that considerable reform is possible even at the level of subordinate rules and practices of the various regulatory agencies. The suggested reforms will also require non-legislative action by the Government as well as various regulatory and standard setting agencies including the RBI, SEBI, IRDA and ICAI. In addition to these reforms, effective implementation will require the participation of self-regulatory organizations (SROs) such as the Indian Banks Association (IBA), Fixed Income Money Market and Derivatives Association of India (FIMMDA), Association of Merchant Bankers of India (AMBI), Association of Mutual Funds of India (AMFI), Foreign Exchange Dealers Association of India (FEDAI), Primary Dealers Association of India (PDAI), etc. to play a critical role in developing codes of conduct, setting and maintaining standards for different segments of the financial system with a view to promoting and protecting interests of institutions, investors and depositors in India.

Also, there are several overlaps in the recommendations of Advisory Groups as noted by the Synthesis Report with concomitant relevance for legislative changes keeping in view such overlaps. The issues of regulatory overlap were highlighted by several Advisory Groups which has a bearing on the policy and procedures though not on legal framework as such.

The Standing Committee does not wish to take any specific stand on any of the recommendations of the Advisory Groups or the Synthesis Report. In conformity with the objectives, the task of the Standing Committee is only to sensitise the authorities and markets by benchmarking Indian market practices with international standards and codes. In order to enable a continuation of this process, the Standing Committee proposes the following.

First, in order to ensure wider publicity, the Reports of the Advisory Groups and the Synthesis Report (included as part of the Standing Committee Report) will be made available both in the form of hard copy and CD Rom for distribution to regulatory agencies, banks, industry associations, training centres, universities, central banks, credit rating agencies, international financial institutions, and international institutional investors.

Second, a system of monitoring the progress of implementing the recommendations of the Advisory Groups could be introduced. This could take the form of an Annual Progress Report on International Standards and Codes to be included in the Economic Survey of Government of India and the Annual Report of RBI.

Third, as regards institutional arrangements, the Standing Committee endorses the following view of the Synthesis Report.

“The Reports of the Groups and action cannot be a one-off affair nor can its implementation be made into strict sequenced process. In view of this, it is desirable that some permanent mechanism be created for monitoring and evaluating follow up, responding to new developments and coordinate with Government, Regulators, SROs and other market participants on a continual basis. Independently, we have noted that a number of Groups have recommended that High level Group on Capital Markets be given a formal legal status. The tasks can be

merged by assigning this task of evaluation and supervision also to this Group. The analogy of creating a domestic Financial Standards Forum would not be inappropriate. Further, such a group or forum would need some secretariat, which could be located in RBI, in view of the fact that it has already evolved a small professionally well-equipped group to assist the various Advisory Groups. The responsibility of this establishment would be to monitor both international and domestic developments in this regard and follow up with annual reports. Where required, similar non-official Advisory Groups, involving experts to assess and evaluate change can be set up from time to time. Further, increasingly, our performance under these norms will play an important role in determining the overall risk assessment. In this context, periodic reviews by independent experts will help in providing vital inputs for improved governance. All incidental benefit of such a formal structure is in terms of promoting greater international awareness of our efforts in these critical areas as well as acting as a reference and pressure group for economic reform.”

The Standing Committee wishes to place on record its deep appreciation to the Finance Minister and Governor, Reserve Bank of India for interest taken in this effort. The Committee is also deeply indebted to the Chairmen of the Advisory Groups for accepting to undertake and complete this enormous task and to Prof. T.C.A. Anant for preparing the Synthesis Report. The Committee is grateful to all the experts who have served as members or special invitees in the various Advisory Groups. Thanks are also due to the officers of the Government and RBI who were associated as members of the Standing Committee, convenors, members of the Secretariat, and as nodal officers to the Advisory Groups. List of persons associated with the Standing Committee and the Advisory Groups in different capacities is enclosed (Annexure II).

The Standing Committee reiterates that although the standards have evolved in the context of international stability, they have enormous efficiency-enhancing value by themselves. It is, therefore, in the national interest to develop institutional mechanisms for consideration of international standards. Thus, the implementation of standards needs to be given a domestic focus with the objectives of market development and enhancing domestic market efficiency. The Standing Committee urges the Government of India and RBI to promote wide dissemination and debate while establishing mechanisms for continuous updating and reviewing of structural aspects of financial architecture.

**Sd/  
(C.M. Vasudev)  
Alternate Chairman  
16.5.2002**

**Sd/-  
(Y.V. Reddy)  
Chairman  
16.5.2002**

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\*Dr.Y.V. Reddy, Deputy Governor, Reserve Bank of India is Chairman. Shri C.M. Vasudev, Secretary, Economic Affairs is Alternate Chairman. Initially, Dr.E.A.S. Sarma, formerly Secretary, Economic affairs, Ministry of Finance was the Alternate Chairman and on his vacation, Mr. Ajit Kumar, formerly Finance Secretary assumed the position. Dr. Adarsh Kishore is Member. Dr. A. Vasudevan, formerly Executive Director, Reserve Bank of India, Dr. Arvind Virmani, formerly Senior Economic Adviser, Ministry of Finance, Mr. V. Govindarajan, formerly Joint Secretary, Fund Bank Division and Dr. Rakesh Mohan, formerly Adviser to Finance Minister were earlier Members.

**Governor**

**Reserve Bank of India  
Central Office  
Shaheed Bhagatsingh Road  
Mumbai –400 001**

### **Office Memorandum**

Recent developments in the international financial scene and discussions on International Financial Architecture have centered on the need for evolving sound standards based on recognised best practices in fiscal, financial and accounting areas, and for adopting transparency while adhering to the Codes. In order to monitor development in this regard and to consider various aspects relevant to India, in consultation with Government of India, Reserve Bank has decided to constitute a “Standing Committee on International Financial Standards and Codes”.

The Committee will have the following terms of reference:

- (a) To identify and monitor developments in global standards and codes being evolved especially in the context of the international developments and discussions as part of the efforts to create a sound International Financial Architecture.
- (b) To consider all aspects of applicability of these standards and Codes to Indian financial system, and as necessary and desirable, chalk out a road map for aligning India’s standards and practices in the light of the evolving international practices.
- (c) To periodically review the status and progress in regard to the Codes and practices; and
- (d) To make available its reports on the above to all concerned organisations in public or private sector.

The Committee will be chaired by Dr.Y.V.Reddy, Deputy Governor, Reserve Bank of India, with Dr. E.A.S. Sarma, Secretary (Economic Affairs) as Alternate Chairman. Shri V. Govindarajan, Additional Secretary, GOI, Dr. Arvind Virmani, Sr. Economic Adviser, Ministry of Finance, Government of India and Dr. A. Vasudevan, Executive Director (RBI) will be members. Shri K. Kanagasabapathy, Adviser-in-Charge, Monetary Policy Department, Reserve Bank of India and Dr. R. Kannan, Adviser, Department of Economic Analysis and Policy will be Secretaries to the Committee.

The Committee could co-opt members depending on the subject under consideration, and may constitute technical groups to report on specific code or practices.

The Standing Committee will review its own status after one year and report to Government/RBI.

Sd/  
(Bimal Jalan)

December 8, 1999

**Annexure II**

**Standing Committee on  
International Financial Standards & Codes**

<b>Chairman:</b>	<b>Dr. Y.V.Reddy</b>
<b>Alternate Chairman:</b>	<b>Shri C.M. Vasudev</b> ( Formerly Dr. E.A.S.Sarma and Shri Ajit Kumar )
<b>Members:</b>	<b>Dr. Adarsh Kishore</b> (Formerly Dr. A.Vasudevan, Dr. Arvind Virmani, Shri V. Govindarajan and Dr. Rakesh Mohan)
Convenors	<b>Dr. D.V.S.Sastry</b> (Formerly Shri K.Kanagasabapathy, Dr. R. Kannan, and Dr. G.S.Bhati)
<b>Secretariat</b>	Dr. Himanshu Joshi, Shri S.Arunachalaramanan, Dr. A. Prasad and Shri A.G.Khiani

*Chairmen of Advisory Groups*

Dr. Montek Singh Ahluwalia	( Fiscal Transparency )
Shri M. G. Bhide	( Payment and Settlement System )
Shri Y. H. Malegam	( Accounting and Auditing )
Dr. N. L. Mitra	( Bankruptcy Laws )
Shri M. Narasimham	(Transparency in Monetary and Financial Policies)
Dr. R. H. Patil	( Corporate Governance )
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**Synthesis Report**

**Author : Prof. T.C.A. Anant**