Report of the Technical Committee to review the form of presentation of the Balance Sheet and Profit & Loss Account

April 30, 2013

INDEX

Chapter 1 - Introduction

1.1 The financial statements of the Reserve Bank are based on the provisions of the Reserve Bank of India (RBI) Act, 1934 and the notifications issued there under while the form of presentation conforms to the prescriptions laid down in the Reserve Bank of India General Regulations, 1949.

1.2 The policies, practices, and procedures pertaining to the accounting system in the Reserve Bank and the formats of reporting were designed in line with the practices followed by the Bank of England. Over time, although there have been changes in some policies, the format of the financial statements has remained largely unchanged since inception. The Reserve Bank prepares two balance sheets - one for the Issue Department and the other for the Banking Department. This segregation helps to earmark the specific assets which are held against the liability of Bank notes in circulation in the Issue Department. The generation of separate balance sheets is also in conformity with Section 53 of RBI Act, 1934 which requires that "RBI shall prepare weekly accounts of the issue and the banking departments separately and transmit the same to the Government". The composition of the assets and liabilities of Issue Department has been laid down in Sections 33 and 34 of the RBI Act, 1934. In recognition of the need for greater comparability and transparency, the Reserve Bank has been progressively moving towards greater disclosures in its financial statements. This has enhanced the readability of its Balance Sheet. Taking this forward, the Central Board of Directors of RBI, suggested in their meeting held on August 9, 2012 that greater transparency and clarity in the two balance sheets of the Bank may be provided, for which, if necessary, appropriate legislative changes could be initiated.

1.3 In pursuance of this objective, it was suggested in the meeting of the Committee of the Central Board held on August 29, 2012, that the

Bank may consider the constitution of a Technical Committee for improving the form and the information content of RBI's financial statements.

1.4 **Constitution of the Committee**

Accordingly, a 'Technical Committee to review the form of presentation of the Balance Sheet and Profit & Loss Account' was constituted by the Governor on November 12, 2012 with the following members:

(a)	Shri Y.H. Malegam Director on the Central Board of the RBI	Chairman
(b)	Prof. Indira Rajaraman Director on the Central Board of the RBI	Member
(c)	Shri B. Mahapatra Executive Director, RBI	Member
(d)	Shri P.R. Ramesh Chairman, Deloitte Haskins and Sells	Member
(e)	Shri V. Venkataramanan Partner, KPMG	Member
(f)	Shri S. Ganesh Kumar Chief General Manager, DGBA, RBI	Member-Secretary

1.5 **Purpose and Terms of Reference of the Technical Committee**

1.5.1 The Committee was constituted in terms of Memorandum dated November 12, 2012 (copy at Annex I) to examine the form of presentation of Balance Sheet and Profit & Loss Account of the Bank and i) to review the style and content of the management commentaries on the financial statements and notes to the accounts of the Balance Sheet of the Reserve Bank of India and ii) to make recommendations to effect changes, if necessary, by appropriate legislative / regulatory modifications.

1.5.2 The terms of reference of the Committee are as under:

(i) Whether the existing presentation of two separate Balance Sheets of Issue and Banking Departments (depicting currency liabilities and others) is in accordance with practices followed by Central Banks generally or whether the two Balance Sheets need to be merged into a single Balance Sheet of the Bank;

(ii) Whether in accordance with practices followed by Central Banks generally, it is necessary to have separate Profit & Loss Accounts for the Issue and Banking Departments or whether the present form of a combined Profit & Loss Account shall continue;

(iii) Whether the disclosures presently made in the Balance Sheet and Profit & Loss Account and the notes to accounts are adequate or can be improved; and

(iv) Any other issue germane to the subject.

1.6 **Methodology Adopted:**

1.6.1 The broad methodology adopted was as follows:

- Request for suggestions / views / comments, from the general public was made through the web.
- Discussions were held amongst the members, spread across six distinct meeting sessions over a four month period.
- Deliberations were held on the draft recommendations.
- The recommendations were finalized.

1.6.2 The five pronged approach adopted by the Committee consisted of the following:

- A comparative study of the financial reporting practices in some of the major foreign central banks across the world and a juxtaposed review of the balance sheet of the RBI.
- Examination of the extant accounting policies of RBI and comparison thereof with reference to the requirements of the International Financial Reporting Standards (IFRS).
- Evaluation of the current disclosures in RBI's financial statements with reference to the disclosures required under IFRS.

- Preparation of and discussions on consolidated formats of the RBI's financial statements as on June 30, 2012.
- Examination of other allied aspects.

1.7 The supporting Annexes in this report are

Annex I – Memorandum of Constitution of the Technical Committee

Annex II- Proforma Revised Financial Statements for the year ended June 30, 2012

Annex III-Proforma Consolidated Balance Sheet as on June 30, 2012

Annex IV-Proforma Consolidated Profit & Loss Account for the year ended June 30, 2012

Annex V- A Brief Report on Comparative Analysis of Financial Statements of various Central Banks

Annex VI- List of Abbreviations

Chapter 2 - Financial Statements of RBI: Objectives

2.1 **Overview**

2.1.1 A complete set of general purpose financial statements of an entity normally includes:-

a. A Balance Sheet
b. A Profit & Loss Account
c. A Cash Flow Statement
d. A Statement of Accounting Policies and Explanatory Notes
e. A Consolidated Balance Sheet and a Consolidated Profit & Loss Account

2.1.2 The financial statements of the Reserve Bank are general purpose financial statements, designed to provide useful information to readers about the manner in which the Reserve Bank obtains its resources and invests in assets as also the nature and extent of its income and expenditure which reflect the efficient and effective management of the Bank, including by its Board, and for the discharge of the responsibilities, in terms of the RBI Act 1934.

2.1.3 The Committee's discussion and recommendations in respect of each of these matters is given in the subsequent chapters, which also contain a discussion on the changes suggested in the accounting policies followed by the Reserve Bank and other related matters.

2.2 **Need for Change in Regulations**

2.2.1 While the RBI Act has specified the assets and liabilities of the Issue Department, neither the RBI Act nor the Regulations prescribe the form of the Balance Sheet of the Reserve Bank and therefore, the implementation of the changes in the format based on the recommendations of the Committee in so far as the Balance Sheet is concerned, do not require any amendment of the Act or Regulations. However, Regulation 22(i) of the Reserve Bank of India General Regulations, 1949 provides that the balance sheet shall be in the form prescribed by the Central Government. Therefore, approval of the

Central Government will be needed to implement the changes in the form of the Balance Sheet recommended by the Committee.

2.2.2 Regulation 22(ii) also prescribes the form and contents of the Profit & Loss Account. Thus, to implement the changes recommended by the Committee, a change in the RBI General Regulations will be necessary.

2.2.3 There is no requirement in the RBI Act or the RBI General Regulations regarding a Cash Flow Statement, a Statement of Accounting Policies and Explanatory Notes or a Consolidated Balance Sheet and Profit & Loss Account. Therefore, no changes in the Act or Regulations are needed to implement the recommendations of the Committee in respect of these items.

Chapter 3-Balance Sheet

3.1 Single Balance Sheet or Dual Balance Sheet

3.1.1 The separation of assets of the Issue Department is based on Section 23 (1) of the RBI Act, 1934 which prescribes that the function of issue of Bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as defined in Section 34 of the Act ibid. This followed from the recommendations of the Hilton and Young Commission of 1926 at the time of handover of the currency issue function to Reserve Bank of India and due to the consequent need to create public confidence in the note issue function.

3.1.2 The merger of Issue and Banking Department balance sheets has been examined in the past by a Group of four chartered accountants' firms constituted in 1999. The Group in its report recommended the merger of the Balance Sheet of Issue Department (ID) and Banking Department (BD). It felt that the concept of a single Balance Sheet for the Bank as a whole was in line with best international practices. It was also felt that the merger did not envisage physical merger of ID and BD and they would continue to be kept distinct and separate. The recommendations were deliberated upon and it was decided to continue with the practice of preparing separate balance sheets since there was merit in having separate balance sheets for ID and BD; they presented a distinct picture of the assets and liabilities of the two departments and provided more transparency in dissemination of information relating to the currency operations undertaken by the Reserve Bank.

3.1.3 Most central banks across the globe present only a single Balance Sheet; some exceptions being India, Saudi Arabia and the United Kingdom.

3.1.4 The arguments in favour of a single Balance Sheet are as under:-

a. The Issue Department is not a separate entity but is part of the RBI. The notes issued represent a liability of the RBI and the assets backing the currency are the assets of RBI. Therefore, a single Balance Sheet would display at one place the total liabilities and the total assets of RBI.
b. If the RBI presents a single balance sheet, it will follow the practice followed by most of the central banks in the world.
c. It is not necessary to have dual balance sheets merely to disclose separately the assets and liabilities of the Issue Department. This can equally be done in a single, segmented, Balance Sheet.

3.2 **Form of Single Balance Sheet**

The Committee therefore recommends that:-

a. RBI should prepare a single balance sheet which displays separately the assets and liabilities of the Issue Department.
b. After the assets and liabilities of the Issue Department are separately disclosed, the remaining assets should be arranged in descending order of liquidity, and the remaining liabilities should be arranged by order of maturity with the long-term liabilities being displayed before the short-term liabilities.

3.3 **Reserves vs. Provisions**

3.3.1 Currently the balance sheet of the Banking Department lists the following reserves:-

a. Reserve Fund
b. National Industrial Credit (Long Term Operations) Fund
c. National Housing Credit (Long Term Operations) Fund

3.3.2 The Reserve Fund was created in terms of section 46 of the RBI Act with an amount of ₹5 crore as contribution from the Central Government for the currency liability of the then sovereign government taken over by RBI. Up to October 1990, the gain on periodic revaluation of gold aggregating to ₹6,495 crore has been credited to the Fund and the present balance in the Fund is ₹6,500 crore. After October 1990, the unrealised gain on periodic revaluation of gold has been credited to the Currency and Gold Revaluation Account (CGRA).

3.3.3 The National Industrial Credit (Long Term Operations) Fund was created in July 1964 under Section 46C of the RBI Act with an initial corpus of ₹10 crore and annual contributions were made from the profits to the Fund up to 1991-92. Thereafter, only a token contribution of ₹1 crore is made to the Fund each year. The present balance of the Fund is ₹21 crore. The Fund was created to provide financial assistance to eligible financial institutions.

3.3.4 The National Housing Credit (Long Term Operations) Fund was created in January 1989 under section 46D of the RBI Act with an initial corpus of ₹60 crore and annual contributions were made from the profits to the Fund up to 1991-92. Thereafter, only a token contribution of ₹1 crore is made to the Fund each year. The present balance of the Fund is ₹195 crore. The Fund was created for extending financial accommodation to the National Housing Bank.

3.3.5 In addition to the above, the following items are included in the balance sheet under 'Other Liabilities':

(Amount in ₹ crore)

	Item	Balances as on June 30, 2012
a)	Currency and Gold Revaluation Account	4,73,172
b)	Investment Revaluation Account	12,222
c)	Exchange Equalisation Account	2,405
d)	Asset Development Reserve	18,214
e)	Contingency Reserve	1,95,405

3.3.6 The Currency and Gold Revaluation Account (CGRA) reflects the unrealised gain / losses on revaluation of Foreign Currency Assets and Gold which are credited / debited to this account.

3.3.7 The Investment Revaluation Account (IRA) reflects the unrealised gains / losses arising on marking foreign dated securities to market which are credited / debited to this account.

3.3.8 The Exchange Equalisation Account (EEA) represents the provision through the Profit & Loss Account for the unrealised exchange losses arising from forward commitments transferred to this account.

3.3.9 The Asset Development Reserve (ADR) was created out of profits to meet internal capital expenditure and make investments in subsidiaries and associated institutions.

3.3.10 The Contingency Reserve (CR) represents the amounts added on a year to year basis for meeting unexpected and unforeseen contingencies including depreciation in the value of domestic securities, risks arising out of monetary / exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Central Bank.

3.3.11 Contingency Reserve and Asset Development Reserve are created to meet future requirements. The Committee recommends that these accounts continue to be shown under 'Other Liabilities'.

3.3.12 The Currency and Gold Revaluation Account, the Investment Revaluation Account and the Exchange Equalisation Account are not reserves but merely accounts in which the unrealised gains and losses on investments and other assets are accumulated. The Committee recommends that these items may continue to be included under 'Other Liabilities'. In the event any of these accounts show a debit balance, it will be necessary to charge such balance to the Profit & Loss Account.

3.4 **Form of the Balance Sheet**

3.4.1 The Committee recommends that the Balance Sheet should contain only the main items of capital, reserves, assets and liabilities and all details be shown in the accompanying schedules.

3.4.2 Therefore, the liabilities side of the Balance Sheet will contain the following items in the order specified below:-

1. Capital
2. Reserve Fund
3. Other Reserves
4. Notes Issued
5. Deposits
6. Other Liabilities and Provisions

The Committee recommends that Bills Payable, not being material, be grouped under 'Other Liabilities and Provisions' and not shown as a separate item.

3.4.3 The asset side of the Balance Sheet will contain the following items in the order specified below:-

1. Assets of the Issue Department
   - 1.1. Gold coin and bullion
   - 1.2. Foreign securities
   - 1.3. Rupee coin
   - 1.4. Government of India Rupee securities
   - 1.5. Domestic Bills of Exchange and other Commercial Papers
2. Assets of the Banking Department
   - 2.1. Notes, rupee coin, small coin
   - 2.2. Gold coin and bullion
   - 2.3. Balances held abroad
   - 2.4. Investments
   - 2.5. Bills purchased and discounted
   - 2.6. Loans and advances
   - 2.7. Investment in subsidiaries
   - 2.8. Other assets

3.5 Schedules to the Balance Sheet

3.5.1 The Committee recommends that for each item in the Balance Sheet there should be a supporting schedule, where applicable. The schedules will show the relevant details which are currently being shown in the narrative discussion in the chapter on the Reserve Bank's Accounts and in the 'Notes to the Accounts' in its Annual Report.

3.5.2 In determining the items which are to be shown separately in the schedules, items of similar nature can be grouped and shown as a single item and other items which are not material in value can be grouped and shown as a single item titled 'Others'.

3.5.3 Items which are considered as being of a sensitive nature may not be separately disclosed.

3.6 The Committee's recommendations are incorporated in the Proforma Revised Financial Statements accompanied with the Proforma 'Statement of Accounting Policies and Notes to Accounts' and Proforma Consolidated Balance sheet as on June 30, 2012 given in Annex-II and Annex-III, respectively.

Chapter 4-Profit & Loss Account

4.1 Nomenclature of the Account

RBI is not a commercial organization. Its main source of income is the income it earns on its investments and these investments are largely held as a backing for the issue of notes or as part of the foreign exchange reserves or as part of its open market operations. It does not actively trade in investments and gains or losses which arise on the sale of these investments are incidental to the activities performed in the discharge of its responsibilities. It renders services to the Government as a banker to the Government and as a debt manager and to the banking industry through its operation of the Payment and Settlement System as also as a monetary authority and regulator and supervisor. Since it is not the primary objective of central banks to earn profits, the nomenclature ‘Profit & Loss Account’ tends to be a misnomer and the Committee therefore recommends that it should be replaced by the nomenclature ‘Income Statement’.

4.2 Single vs. Dual Profit & Loss Account (Income Statement)

4.2.1 Regulation 22 of the RBI Regulations, 1949 prescribes that a single Profit & Loss Account is to be prepared by RBI notwithstanding that separate balance sheets are to be prepared for the Issue Department and Banking Department. Among the other central banks which prepare a dual balance sheet, UK also prepares a dual Income Statement but Saudi Arabia prepares only a single Profit & Loss account (Statement of Revenue and Expenditure).

4.2.2 Some of the reasons why a single Profit & Loss account (Income Statement) is preferable are as under:-

a) While the income of the Issue Department can be identified as resulting from the assets of the Issue Department, it is difficult to identify the expenses of the Issue Department. These include in addition to the cost of printing of Bank notes and the transportation costs thereof, the establishment cost of the Issue Department, the infrastructure (including the equipment), the allocable overheads of the general administration etc.

b) The activities of the Issue Department are in a sense interlinked with the other functions of RBI e.g. monetary policy, management of foreign exchange reserves, exchange rate management etc.

4.2.3 The Committee therefore recommends that a single Profit & Loss account (or as per nomenclature recommended, 'Income Statement') may continue to be prepared.

4.3 Form of the Profit & Loss Account (Income Statement)

4.3.1 Section 47 of the RBI Act provides that 'after making provision for bad and doubtful debts, depreciation in assets, contribution to staff and superannuation fund and for all other matters for which provision is to be made by or under this Act or which are usually provided for by bankers, the balance of the profit shall be paid to the Central Government'.

4.3.2 Currently the income shown under the head 'Interest, Discount, Exchange, Commission etc.' is net after deduction of depreciation in the value of domestic dated investments and transfers to CR and ADR and accordingly these items are not shown in the Profit & Loss Account. Similarly, the valuation gain / loss on gold and exchange gain /loss on foreign currency assets, appreciation / depreciation on marking foreign dated securities to market and the provision for exchange losses arising from forward contracts are not taken to the Profit & Loss Account but are credited or debited directly to CGRA, IRA and EEA, respectively.

4.3.3 The Committee recommends that all the unrealised valuation adjustments (gains/losses) indicated in para 4.3.2 should be routed through the Profit & Loss Account, and the corresponding net transfers to the CR, ADR, CGRA, IRA and EEA be shown as a single item in the Profit & Loss Account (Income Statement) under the heading 'Provisions'.

4.3.4 Since interest income is the main source of income for the Bank, the Committee recommends that all items of a non interest earning nature be grouped under a single head and shown as 'Other' and that the items in the Profit & Loss Account be re-grouped and re-arranged as under:-

Income

a. Interest
b. Other

Expenditure

a. Printing of notes
b. Expense on remittance of currency
c. Agency charges
d. Interest
e. Employee costs (currently categorised as Establishment Expenses)
f. Postage and telecommunication charges
g. Printing and stationery
h. Rent, Taxes, Insurance, Lighting, etc.
i. Repairs and maintenance
j. Directors and Local Board Members' fees and expenses
k. Auditors' fees and expenses
l. Law charges
m. Miscellaneous Expenses
n. Depreciation
o. Provisions

4.4 **Schedules to the Profit & Loss Account (Income Statement)**

Where appropriate, the items shown in the Profit & Loss Account (Income Statement) can be supported by schedules. In determining the extent of detail to be shown in the schedules, items of a similar nature may be grouped and shown as a single item and other items which are not material in value can be grouped and can be shown as a single item under the head ‘Others’. Items which are of a sensitive nature need not be separately disclosed.

4.5 Provisions

4.5.1 As mentioned in para 4.3.1 above, RBI is required to make provision ‘for all other matters for which provision is made by or under the Act or which are usually provided for by bankers’.

4.5.2 To understand the nature of provisions which RBI should make in respect of such matters, the Committee examined the practices followed by 18 central banks and disclosures in the financial statements of these banks. (A brief comparative analysis of certain aspects of select central bank balance sheets is presented in Annex V.)

4.5.3 This examination revealed the following:

(a) Most central banks have large amount of capital and reserves. The following table shows the details of capital and reserves held by some of the major central banks:

Table: Capital and Reserves of major central banks

Country	Capital (1)	Reserves (2)	Retained Earnings (3)	Equity (4=1+2+3)	Total Assets (5)	Equity as % of Total Assets (6=4/5*100)
Germany	2.5 billion Euro	2.5 billion Euro	.664 billion Euro	5.664 billion Euro	1025.31 billion Euro	0.55
France	1.0 billion Euro	4.7 billion Euro	.126 billion Euro	5.826 billion Euro	709.25 billion Euro	0.82
Indonesia	16.87 trillion Rupiah	97.84 trillion Rupiah	(25.15) trillion Rupiah	89.56 trillion Rupiah	1371.84 trillion Rupiah	6.53
USA (Fed Reserve)	26.9 billion Dollar	-	26.9 billion Dollar	53.8 billion Dollar	2918.87 billion Dollar	1.84
Australia	.04 billion Dollar	6.32 billion Dollar	-	6.36 billion Dollar	81.08 billion Dollar	7.84
Switzer-land	.025 billion CHF	3.873 billion CHF	5.96 billion CHF	9.858 billion CHF	499.43 billion CHF	1.97
European Central Bank	7.65 billion Euro	-	.998 billion Euro	8.648 billion Euro	207.29 billion Euro	4.17
Canada	.005 billion Dollar	.419 billion Dollar	-	.424 billion Dollar	77.81 billion Dollar	0.54
Singa-pore	25 billion Dollars	10.152 billion Dollar	-	35.152 billion Dollar	319.20 billion Dollar	11.01
United Kingdom	.015 billion Pounds	.895 billion Pounds	2.477 billion Pounds	3.387 billion Pounds	315.47 billion Pounds	1.07
Japan	.1 billion Yen	2686.183 billion Yen	529.066 billion Yen	3215.35 billion Yen	139456.94 billion Yen	2.31

(b) Most of the central banks maintain reserve funds to which transfers are made, often as per the statutory requirements of their respective countries. Thus:

  (i) The Bundesbank Act requires the Deutsche Bundesbank to build up reserves over the years till such reserves are equal to the Capital.

  (ii) The Banque de France builds up a General Reserve Fund until it reaches twice the size of the Capital.

  (iii) The Swiss National Bank is required to use its profits primarily to set up provisions permitting it to maintain the currency reserves at the level necessary for monetary policy purposes.

  (iv) The statute of the European Central Bank provides that it may transfer to the General Reserve Fund each year an amount not exceeding 20% of the net profits till the Reserve Fund equals the Capital.

(c) Almost all central banks transfer to special accounts, the unrealised gains and losses on the translation of foreign assets and the marking of investments to market. Such unrealised gains are not available for distribution as dividend.

(d) Many central banks provide for specified percentage of profits to be transferred to reserves before dividends are paid to the Government. For example,

  i) In France, 5% of the net profits have to be statutorily transferred to reserves.

  ii) In Russia, 25% of the profits are transferred to the reserves.

  iii) In Indonesia, 30% of the profits are transferred to the statutory reserves.

4.5.4 It is necessary in the context of the above to consider, the present practices in RBI which are as under:

(a) RBI has a capital of only ₹5 crore whereas it has total assets as at June 30, 2012 of ₹22,08,900 crore. It has a Reserve Fund of

₹6,500 crore. Therefore, the Capital and Reserve Fund together are wholly inadequate in the context of the total assets of the Reserve Bank.

(b) RBI has an ADR of ₹18,214 crore. The reserve is intended to provide funds for capital expenditure and for investment in subsidiaries and associated institutions. Currently, the transfers to the reserve are equal to the cost of assets acquired during the year (net of depreciation for the year), in addition to an amount equal to one twelfth of the amount available for transfer to the Internal Reserves less cost of assets acquired during the year. The Committee recommends that the transfer to the Reserve should serve two purposes *viz*.

(i) provide for additional cost of replacement on account of inflation - say, at 5% per annum and

(ii) provide for additional cost because of technological improvement and increased size of operation - say, at 10% per annum

The Committee therefore recommends that the transfer to ADR each year should be equal to 15% of the original cost of the fixed assets, which may be periodically reviewed in the context of changing circumstances.

(c) RBI has a Contingency Reserve of ₹1,95,405 crore. This reserve is available for meeting unexpected and unforeseen contingencies including depreciation in the value of securities, risks arising out of monetary / exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Central Bank. Given the fact that the Foreign Currency Assets (FCA) alone (including gold) amount to ₹15,94,883 crore and given the very small size of the Capital and Reserve Fund, it is necessary that the Contingency Reserves be built up. The adequacy of reserves was examined in the past by two Internal Working Groups *viz*. Shri V.

Subrahmanyam Group in 1997 and Usha Thorat Group in 2004. The recommendations of the two groups are as under:

(i) The Subrahmanyam Group recommended that Contingency Reserve should be built up to 12% of the total assets and a timeline for achieving the same was given till 2005, on the following basis:

(1) Five (5) per cent of total assets towards losses which cannot be absorbed by current earnings arising out of operations / interventions in money, securities and forex markets and depreciation of domestic / foreign securities held by the RBI.

(2) Five (5) per cent of total assets to be provided for shocks arising out of changes in exchange rates and changes in gold prices. Assuming the share of FCA plus gold as 40% of the total assets, the Group initially suggested that internal reserves for absorbing shocks in the external assets should be at least 25% of the FCA plus gold or 10% of the total assets. However, as the CGRA (then known as Exchange Fluctuation Reserve A/c) was 5% of the total assets, the Group recommended that a cushion of 5% of the total assets be built in the CR towards any shortfall in the CGRA.

(3) Two (2) per cent of total assets towards systemic risks and any developmental role that the RBI may have to undertake. Out of this allocation, 50% i.e. 1% of Bank's assets can be separately earmarked and retained under the head 'Asset Development Reserve' to provide for expenditure incurred by the Bank on fixed assets such as office equipment, computers, etc. and building projects and alterations, as also investments in institutions such as NABARD, BRBNMPL, NHB, etc.

(ii) The Usha Thorat Group assessed the reserve adequacy (CGRA+CR+ADR) at 17.76% of total assets, rounded off to 18% based on the following assumptions:

(1) that gold constitutes about 3% of total assets against which CGRA needs for gold can be placed at 1% of total assets (presently gold constitutes approximately 7% of total assets);

(2) assuming that total assets consist of FCA and gold, the CGRA +CR can together be 12.26% of total assets (11.26 + 1 per cent);

(3) assuming that there are no domestic assets or they are negligible, CR requirements for interest rate risk may be taken as 2% of total assets;

(4) provision of 3.5% towards other risks such as monetary and exchange market operations, investments in subsidiaries and associates, operational risks, etc.

However, the recommendations of the latter group were not accepted by the Central Board and it was decided to continue with the recommendation of the former group to maintain CR at 12% of the total assets of the Reserve Bank.

4.5.5 The indicative target of 12% of total assets for transfer from gross profits to CR was intended to be the minimum level to be achieved each year, though actual levels could be determined based on the circumstances, and the amount in excess of requirements of transfer to CR was to accrue as profit to the government. The Committee recommends that adequate amount of the profits should continue to be transferred each year to CR. The Committee does not wish to comment on specific amount to be transferred to the CR as it is a policy matter to be decided by the Management.

4.5.6 As stated earlier, the unrealised gains and losses on various assets arising on translation of foreign currency assets or on marking of assets to market are taken to various accounts appearing under 'Other Liabilities'. This practice, which is in accordance with the practice followed by most central banks, should continue.

4.6 The Committee's recommendations are incorporated in the Proforma Standalone and Consolidated Income Statements given in Annex-II B and Annex IV.

Chapter 5-Accounting Policies

5.1 Adoption of IFRS

5.1.1 The Committee examined the extant accounting policies to determine the extent to which they conform to the requirements of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The Committee considers that complete convergence of accounting policies with IAS / IFRS is not desirable for the following reasons:-

a) IAS / IFRS are designed for general purpose statements of commercial entities and may not be wholly appropriate for a central bank.
b) A central bank may, on grounds of prudence, need to adopt more conservative policies than those prescribed in IAS / IFRS and in particular it may not be appropriate to adopt fair value accounting in all cases.
c) Given the nature of a central bank's activities, it may not be necessary to strictly apply IAS / IFRS on grounds of materiality.

5.1.2 The Committee therefore recommends that while RBI should prepare its financial statements generally in accordance with IAS / IFRS, it may make such departures as it considers appropriate.

5.2 Specific Recommendations

The specific recommendations of the Committee are as under:-

5.2.1 Presently gold is revalued on a monthly basis at 90% of the daily average price quoted at London for the month. It is recommended that gold being an operating asset, be revalued at the end of each month at the prevalent international price and unrealised gain / loss arising from such revaluation may continue to be transferred to the CGRA.

5.2.2 Fixed Assets are currently shown in the Balance Sheet at their written down value. It is recommended that the original cost of the assets and the accumulated depreciation to date be shown separately in a schedule. Since depreciation is provided on a straight line basis for all items of assets other than buildings, the original cost of those assets should be available. In so far as buildings are concerned, the original cost as at June 30, 2012 may be considered as equivalent to its written down value as at that date and subsequent additions may be recorded at cost. For purposes of depreciation on buildings, a future life of 15 years may be assumed for buildings on hand as at June 30, 2012 and a life of 30 years may be assumed for all additions thereafter.

5.2.3 Investment in Rupee securities are presently carried in the Balance Sheet at the lower of book value or market value. Thus, when a security is written down because its market value is lower than book value, it is carried at the lower resultant book value, even if in a subsequent period, the market value increases.

In the case of foreign dated securities, the securities are carried at fair value and the unrealised gain or loss is taken to the IRA Accordingly, it is recommended that Rupee securities should also be carried at fair value and any unrealised gain or loss on revaluation should be transferred to the IRA. It is also suggested that if the balance in IRA turns into debit at any time, the debit balance should be charged off to the Profit & Loss Account (Income Statement).

5.2.4 It is normal to classify investments under three separate heads viz

a) Held to maturity
b) Available for sale and
c) Current (Held for trading)

A study was made to ascertain whether in respect of domestic securities there was a minimum stock of securities (base stock method) in the Bank’s portfolio which has remained unchanged over the last five years and which could be categorized as ‘Held to Maturity’. The study showed that apart from Oil Bonds there were no securities which could be treated as ‘Held to Maturity’. It is therefore recommended that while Oil Bonds will be treated as ‘Held to Maturity’ and carried in the Balance Sheet at cost, all other domestic securities, other than treasury bills will be treated as ‘Available for Sale’ and accounted for accordingly. All foreign securities would also be treated as ‘Available for Sale’. While there may be a case for amortization of premium or discount on domestic treasury bills, the consequent adjustment is not likely to be material and all treasury bills should continue to be carried in the Balance Sheet at cost.

5.2.5 In respect of Repo and Reverse Repo, the transactions are being booked as purchase and sale of securities at face value. Apart from the fact that these purchases and sales are not at market rate, the substance of the transaction is the lending and deposit of funds and the securities only represent the collateral security for the transactions. It is therefore recommended that Repo and Reverse Repo transactions be accounted for as lending and borrowing of funds and not as sale and purchase of securities.

5.2.6 When the Government of India has surplus cash balances, part of these balances are utilized to purchase securities from RBI’s portfolio and when these surplus funds are needed to be used by the Government, the securities so sold to the Government are purchased back by RBI. These transactions are made at the face value of the securities, irrespective of their market value on that date, and profit or loss on sale arising on account of difference between face value and book value is accounted for. The transactions involving sale of securities to the Government are in the nature of reverse repo transactions and therefore the profit or loss arising from this operation should be kept in a separate transit account and reversed as and when the transaction is reversed.

5.2.7(a)Forward exchange contracts are presently valued on the Balance Sheet date at the forward rate of the open contract . While the overall gain is ignored, provision is made for overall loss. The Committee recommends that in the event of an overall gain the amount should be reflected in the Balance Sheet as a recoverable asset with a corresponding credit to EEA, which is not presently being done.

However, if there is an overall loss, the loss would be reflected in the Balance Sheet as a liability for unrealised loss with a corresponding debit to Profit & Loss Account (Income Statement).

5.2.7(b) The overall value of such contracts is not discounted at present. The Committee recommends that the overall value of such contracts should be discounted on the Balance Sheet date using the prevalent Reverse Repo rate.

Chapter 6 - Disclosures

6.1 **Objective of Disclosure**

6.1.1 As explained in International Accounting Standard 1 (IAS 1) ‘Presentation of Financial Statements’, the purpose of notes to accounts is (a) to present information about the basis of preparation of the financial statements and the specific accounting policies used and (b) to disclose the information that is not presented elsewhere in the financial statements but which is relevant to an understanding of the financial statements.

6.1.2 The Committee recognizes that while the above considerations should as far as possible be applied when drafting the notes to RBI’s accounts, the objectives and operations of a central bank are somewhat different from those of commercial enterprises and there may be sensitive information which it may be considered not prudent to disclose.

6.2 **Nature of Disclosures**

6.2.1 Currently disclosures are made both in the Chapter in RBI’s Annual Report on ‘The Reserve Bank’s Accounts’ as well as in the ‘Significant Accounting Policies and Notes to the Accounts’ attached to the financial statements. The Committee recommends that all the relevant disclosures should be made only in the ‘Significant Accounting Policies and Notes to the Accounts’.

6.2.2 The Committee has examined the disclosures currently made and has also examined the disclosures made in the financial statements of other central banks as shown in Annex V. The Committee also considered the items for which disclosure is required to be made as recommended in IAS / IFRS.

6.2.3 In making its recommendations, the Committee has kept in mind the following considerations:

a) The disclosure currently being made by RBI.
b) The additional disclosures made by other central banks.
c) The additional disclosures required to be made as recommended in IAS / IFRS.
d) The disclosures which need not be made on grounds of materiality or inapplicability to a central bank.
e) The disclosures which it would be inadvisable to make.

6.2.4 The Committee's recommendations are incorporated in the Proforma 'Statement of Accounting Policies and Notes to Accounts' accompanying Revised Proforma 'Financial Statements' for the year ended June 30, 2012 given in Annex-II.

6.3 **Disclosures Not Recommended**

In the Committee's opinion, it is currently not necessary to make disclosures regarding the following items for which disclosures are recommended in IAS / IFRS:

a) Penal interest collected since it is not material.
b) Dividend income, which is not applicable since the Bank does not currently receive any dividend.
c) Effective Interest Rate (EIR) since currently there are no items on which EIR is applicable.
d) Write back of unclaimed items since the amount is not material.
e) Allowance for impairment and impairment losses since given the nature of the Bank's investment portfolio the question of a permanent diminution in value does not arise.
f) Derivative instruments used for hedging since no such derivatives are used by the Bank.
g) Transactions with related parties since all transactions with related parties are undertaken in the normal course of business.
h) Subsequent events given the nature of the Bank's operations.
i) Operating segments since such disclosures are not generally made by central banks.

j) Comments on risk management, particularly regarding foreign currency assets given the sensitivity of the portfolio and the possible implications of such disclosure.

Chapter 7-Cash Flow Statement

7.1 Need for Cash Flow Statement

7.1.1 Regulation 22 of the RBI General Regulations, 1949 does not require RBI to prepare a Cash Flow Statement. Cash Flow Statements are also not prepared by many central banks and a study of 18 central banks by KPMG in October 2012 established that only 8 prepared Cash Flow Statements.

7.1.2 As per International Accounting Standards 7 (IAS 7), 'Statement of Cash Flows', the objective of cash flow statements is to provide users of financial statements a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows as also the timing and certainty of the generation of the cash flows.

7.1.3 The objective as spelt out in IAS 7 may not be wholly applicable to a central bank for the following reasons:-

a) The central bank issues currency and manages liquidity in the financial system but as the currency which it issues is backed by an equivalent value of assets, it does not use the currency it issues for its own purposes.

b) A central bank has in its books a large amount of highly liquid assets but a negligible amount of cash.

c) If a Cash Flow Statement is prepared, given the nature of the Bank's operations, the Cash Flow from Investing Activities will be confined to the purchase of fixed assets (which in the overall context may not be material) and the Cash Flow from Financing Activities would be confined to the surplus transferred to the Government. The Cash Flow Statement would therefore largely be confined to the Net Cash generated from Operating Activities. This may not give meaningful information regarding the Bank's ability to generate cash or its need to utilise the cash generated.

7.1.4 The Committee therefore recommends that the Bank need not prepare a Cash Flow Statement as part of its financial statements.

Chapter 8-Consolidated Financial Statements

8.1 **Objective of Consolidated Financial Statements**

8.1.1 Consolidated Financial Statements are generally issued in addition to the separate financial statements of an entity to enhance the relevance, reliability and comparability of information provided in the separate financial statements and to enable the users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries and other entities in which it has a significant interest.

8.1.2 This is particularly relevant when the holding company and the subsidiaries are in the same or similar line of business as consolidation is done on a line by line basis whereby individual items of income, expenditure, assets and liabilities are aggregated to show a single amount for each item. Consolidation also enables the reserves of the subsidiaries to be reflected in the consolidated statements.

8.1.3 For purposes of consolidation, the latest financial statements of the subsidiary are used, provided the date as of which such statements are prepared is not earlier than six months before the date as of which the financial statements of the holding company are prepared.

8.1.4 For purposes of consolidation, as far as possible, common accounting policies are used and the financial statements of the subsidiaries are modified as far as possible to reflect common accounting policies.

8.1.5 In respect of associates, which are consolidated, the equity method of accounting is used whereby the holding company's share of undistributed profits or the accumulated losses, as applicable, are added or deducted from the value of investment in the associate and the holding company's share of profit or loss for the year is reflected in the consolidated Profit & Loss Account.

8.2 **Nature of RBI's subsidiaries**

8.2.1 RBI has the following subsidiaries in all of which it holds the entire Share Capital:

Sr. No.	Company	Nature of Business	Investment (₹ Crore)
1	Deposit Insurance and Credit Guarantee Corporation (DICGC)	Insurance of deposits of banks up to ₹100,000 per depositor	50
2	National Housing Bank (NHB)	Regulation and Supervision of Housing Finance Companies including provision of housing finance	450
3	Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)	Printing of Currency Notes	800

8.2.2 Under the National Housing Bank (Amendment) Bill, 2012 which is currently before the Select Committee of Parliament, it has been proposed that NHB will cease to be a subsidiary of the Bank and all or almost all of its investment in NHB will be transferred to the Government. Consequently, only DICGC and BRBNMPL will remain as subsidiaries.

8.3 **Manner of Consolidation**

8.3.1 Given the diverse nature of businesses of the subsidiaries which will remain after the shareholding in NHB is transferred to the Government, the small amount of investment and the asymmetry to the business of the Bank, the Committee recommends that the consolidation should not be done on a line by line basis but should be as explained below.

8.3.2 It is recommended that

a) the net assets of the subsidiaries be shown as a separate item in the Balance Sheet.

b) the net profit after tax for the year for DICGC be shown as a separate item on the income side of the Profit & Loss Account (Income Statement).

c) the net profit after tax for the year of BRBNMPL be shown as a disclosed deduction from ‘Printing of Notes’ in the expenditure side of the Profit & Loss Account (Income Statement).

d) the aggregate reserves of the subsidiaries be separately disclosed in the Balance Sheet.

8.3.3 It is also recommended that the 'Statements of Accounting Policies and Notes to Accounts' attached to the consolidated accounts, should explain the basis of consolidation. As there is no relevant material additional information beyond what is required to be given in the similar statement attached to the stand alone financial statements of the Bank, it may be sufficient if, a reference is invited to the 'Statement of Accounting Policies and Notes to Accounts', as appearing in the stand alone accounts of the Bank.

8.3.4 The Committee's recommendations are incorporated in the Proforma Consolidated Balance Sheet as on June 30, 2012 and Proforma Consolidated Income Statement for the year ended June 30, 2012 given in Annex III & Annex IV.

Chapter 9-Other Issues

9.1 The Committee has noted that the accounting year of the Bank is from 1st July to 30th June and it has examined as to why it cannot be changed to 1st April to 31st March which is the accounting year of the Government as well as the financial year of all banks in India.

9.2 According to information provided to the Committee:-

a) The original accounting year was the calendar year but in 1940 it was changed to the present year for the following reasons:-

(i) The end of December coincided with a heavy outgo of currency and at the same time there were the Christmas and New Year holidays resulting in considerable difficulty in getting the accounts completed and audited in time for the Annual General Meeting which under the Act had to be held within six weeks from the date on which the accounts were to be closed.

(ii) It was considered inadvisable to prepare the Bank's Annual Report right in the middle of the most active part of the busy season.

(iii) A July– June accounting year made it possible to incorporate in the Annual Report, Government's figures which were based on the financial year ending on 31st March.

(iv) The majority of the commercial banks also (then) closed their accounts on 31st December and if the Bank were to write its report in July, it would have ample time to study the annual balance sheets of the banks.

b) The matter was again considered when the Income Tax Act was amended to provide that for all tax payers the 'previous year' which formed the basis of assessment would, with effect from 1st April 1989, end on 31st March in each year. The accounting year for commercial banks was also changed to cover the period beginning

April and concluding in March. It was, however, decided to retain the July–June accounting year for the following reasons:-

(i) A time gap of three months between the Government's financial year and the Bank's accounting year was considered desirable in order to accurately cover in the Bank's Annual Report aspects relating to the finances of the Central and State Governments.

(ii) A time gap of three months between the end of the accounting year of commercial banks and the end of the Bank's accounting year was desirable to study the working of the commercial banks for reporting in the Annual Report.

(iii) The Bank acts as banker to the Government and the transactions are conducted not only by RBI offices but also through a large network of agency bank branches. There is a time lag in the reporting of transactions by agencies and accounting for the same in the Bank's books. Further, a large number of Government transactions take place in the last few days of March in each year. Therefore, at the request of the Government, the Bank's books are kept open for an extended period after 31st March to record as of 31st March, transactions which take place on or before that date but which are intimated after that date.

(iv) The above views were conveyed to the Ministry of Finance, Government of India and it was proposed that the Bank's accounting year remain unchanged.

9.3 The Committee has examined the above submissions and finds merit in them. While it may be technically possible to operate with a April - March accounting year, particularly with the greater facility provided by Information Technology (IT), the balance of convenience seems to be to continue for the present with the July - June accounting year.

9.4 **Unit of reporting**

The Committee recommends that the figures in the Balance Sheet and the Income Statement be represented in crores of Rupees and two decimal (representing lakhs).

Chapter 10-Summary of Recommendations

10.1 Need for change in Regulations

10.1.1 The RBI Act has specified the assets and liabilities of the Issue Department. Regulation 22(i) of the Reserve Bank of India General Regulations, 1949 provides that the balance sheet shall be in the form prescribed by the Central Government. Therefore, approval of the Central Government will be needed for changes in the format of the Balance Sheet. (Para 2.2.1)

10.1.2 Regulation 22(ii) also prescribes the form and contents of the Profit & Loss Account. To implement the changes in the format/ presentation of the Profit & Loss Account, a change in the RBI General Regulations will be necessary. (Para 2.2.2)

10.1.3 There is no requirement in the Act or the Regulations regarding a Statement of Accounting Policies and Explanatory Notes or a Consolidated Balance Sheet and Profit & Loss Account. Thus, no changes in the Act or Regulations are needed to implement the recommendations of the Committee in respect of these items. (Para 2.2.3)

10.2 Dual vs Single Balance Sheet

10.2.1 RBI should prepare a single balance sheet which displays separately the assets and liabilities of the Issue Department. It is possible to disclose the assets and liabilities of the Issue Department separately within a single balance sheet. (Para 3.2.a)

10.2.2 After the assets and liabilities of the Issue Department are separately disclosed, the remaining assets should be arranged in descending order of liquidity, and the remaining liabilities should be arranged by order of maturity with the long-term liabilities being displayed before the short-term liabilities.

(Para 3.2.b)

10.3 Form of the Balance Sheet

10.3.1 The Balance Sheet should contain only the main items of capital, reserves, assets and liabilities and all details be shown in the relevant schedules. (Para 3.4.1)

10.3.2 The liabilities side of the Balance Sheet will contain the following items in the order specified below:-

1. Capital
2. Reserve Fund
3. Other Reserves
4. Notes Issued
5. Deposits
6. Other Liabilities and Provision (Para 3.4.2)

10.3.3 Bills Payable, not being material, should be grouped under 'Other Liabilities and Provisions' and not shown as a separate item. (Para 3.4.2)

10.3.4 The asset side of the Balance Sheet will contain the following items in the order specified below:-

1. Assets of the Issue Department
   - 1.1. Gold coin and bullion
   - 1.2. Foreign securities
   - 1.3. Rupee coin
   - 1.4. Government of India Rupee securities
   - 1.5. Domestic Bills of Exchange and other Commercial Papers
2. Assets of the Banking Department
   - 2.1. Notes, rupee coin, small coin
   - 2.2. Gold coin and bullion
   - 2.3. Balances held abroad
   - 2.4. Investments
   - 2.5. Bills purchased and discounted
   - 2.6. Loans and advances
   - 2.7. Investment in subsidiaries
   - 2.8. Other assets (Para 3.4.3)

10.4 Schedules to the Balance Sheet

10.4.1 For each item in the Balance Sheet, there should be a supporting schedule, where applicable. The schedules will show the applicable details which are currently being shown in the narrative discussion in the chapter in the Annual Report on the Reserve Bank's accounts and in the notes to the accounts. (Para 3.5.1)

10.4.2 In determining the items which are to be shown separately in the schedules, items of similar nature can be grouped and shown as a single item and other items which are not material in value can be grouped and shown as a single item titled 'Others'. (Para 3.5.2)

10.4.3 Items which are considered as being of a sensitive nature may not be separately disclosed. (Para 3.5.3)

10.5 Profit & Loss Account

10. 5.1 The nomenclature 'Profit & Loss Account' is a misnomer and it should be replaced by the nomenclature 'Income Statement'. (Para 4.1)

10.5.2 A single Income Statement may continue to be prepared. (Para 4.2.3)

10.5.3 Currently the income shown under the head 'Interest, Discount, Exchange, Commission etc.' is net after deduction of depreciation in the value of domestic dated investments and transfers to Contingency Reserve and Asset Development Reserve and accordingly these items are not shown in the Profit & Loss Account. Similarly, the valuation gain / loss on gold and foreign currency assets, appreciation / depreciation on marking foreign dated securities to market and the provision for exchange losses arising from forward contracts are not taken to the Profit & Loss Account but are credited or debited directly to Currency and Gold Revaluation Account, Investment Revaluation Account and Exchange Equalization Account respectively. All the unrealised valuations (gains/losses) indicated above should be routed through Profit & Loss Account (Income Statement) and the corresponding net transfers to the Contingency Reserve, Asset Development Reserve, Currency and Gold Revaluation Account, Investment Revaluation Account and Exchange Equalisation Account may now be shown as a single item in the Income Statement under the heading 'Provisions'. (Para 4.3.2/4.3.3)

10.5.4 The items in the Income Statement may be re-grouped and re-arranged as under:-

<u>Income</u>

a. Interest

b. Other

<u>Expenditure</u>

a. Printing of notes
b. Expense on remittance of currency
c. Agency charges
d. Interest
e. Employee costs
f. Postage and telecommunication charges
g. Printing and stationery
h. Rent, Taxes, Insurance, Lighting, etc
i. Repairs and maintenance
j. Directors and Local Board Members' Fees and Expenses
k. Auditors' Fees and Expenses
l. Law Charges
m. Miscellaneous Expenses
n. Depreciation
o. Provisions (Para 4.3.4)

10.5.5 Where appropriate, the items shown in the Profit & Loss Account (Income Statement) can be supported by schedules. In determining the extent of detail to be shown in the schedules, items of a similar nature may be grouped and shown as a single item and other items which are not material in value can be grouped and can be shown as a single item under the head 'Others'. Items which are of a sensitive nature need not be separately disclosed. (Para 4.4)

10.6. Reserves and Provisions:

10.6.1 The transfer to the Asset Development Reserve should serve two purposes viz.

(i) provide for additional cost of replacement on account of inflation - say, at 5% per annum and

(ii) provide for additional cost because of technological improvement and increased size of operation - say, at 10% per annum

Thus, the transfer to Asset Development Reserve each year should be equal to 15% of the original cost of the fixed assets. This percentage may be reviewed periodically in the light of changed circumstances. (Para 4.5.4)

10.6.2 Adequate amount of the profits should continue to be transferred each year to the Contingency Reserve. (Para 4.5.5)

10.6.3 The Currency and Gold Revaluation Account, the Investment Revaluation Account and the Exchange Equalisation Account are not reserves but merely accounts in which the unrealised gains and losses on investments and other assets are accumulated. These items may continue to be included under 'Other Liabilities'. In the event any of these accounts show a debit balance, it will be necessary to charge such balance to the Profit & Loss Account (Income Statement). (Para 3.3.12)

10.6.4 The unrealised gains and losses on various assets arising on translation of foreign currency assets or on marking of assets to market is taken to various accounts appearing under 'Other Liabilities'. This practice, which is in accordance with the practice followed by most central banks, should continue. (Para 4.5.6)

10.7. Accounting Polices

10.7.1 While RBI should prepare its financial statements generally in accordance with IAS / IFRS, it may make such departures as it considers appropriate. (Para 5.1.2)

10.7.2 Presently gold is revalued on a monthly basis at 90% of the daily average price quoted at London for the month. Gold being an operating asset, be revalued at the end of each month at the prevalent international price and unrealised gain / loss arising from such revaluation may continue to be transferred to the Currency and Gold Revaluation Account. (Para 5.2.1)

10.7.3 Fixed assets are currently shown in the Balance Sheet at their written down value. The original cost of the assets and the accumulated depreciation to date be shown separately in a schedule. Since depreciation is provided on straight line basis for all items of assets other than buildings, the original cost of those assets should be available. In so far as buildings are concerned, the original cost as at June 30, 2012 may be considered as equivalent to its written down value as at that date and subsequent additions may be recorded at cost. For purposes of depreciation on buildings, a future life of 15 years may be assumed for buildings on hand as at June 30, 2012 and a life of 30 years may be assumed for all additions thereafter. (Para 5.2.2)

10.7.4 The Rupee securities should be carried at fair value and any unrealised gain or loss on revaluation may be transferred to the Investment Revaluation Account. It is also suggested that if the Investment Revaluation Account turns into a debit balance at any time, the debit balance should be charged off to the Profit & Loss Account (Income Statement). (Para 5.2.3)

10.7.5 It is normal to classify investments under three separate heads viz.

a. Held to maturity
b. Available for sale, and
c. Current (Held for trading)

While Oil Bonds will be treated as 'Held to Maturity' and carried in the Balance Sheet at cost, all other domestic securities, other than treasury bills will be treated as 'Available for Sale' and accounted for accordingly.

(Para 5.2.4)

10.7.6 All foreign securities should be treated as 'Available for Sale'.

(Para 5.2.4)

10.7.7 While there may be a case for amortization of premium or discount on domestic treasury bills, the consequent adjustment is not likely to be material and all treasury bills should continue to be carried in the Balance Sheet at cost. (Para 5.2.4)

10.7.8 In respect of Repo and Reverse Repo, the transactions are being booked as purchase and sale of securities at face value. Apart from the fact that these purchases and sales are not at market rate, the substance of the transaction is the lending and deposit of funds and the securities only represent the collateral security for the transactions. Thus, Repo and Reverse Repo transactions be accounted for as lending and borrowing of funds and not as sale and purchase of securities. (Para 5.2.5)

10.7.9 The transactions involving sale of securities to the Government (Surplus Cash investment) currently being treated as purchase and sale of securities are actually in the nature of reverse repo transactions. Therefore, the profit or loss arising from this operation should be kept in a separate transit account and reversed as and when the transaction is reversed.

(Para 5.2.6)

10.7.9(a) In the event of an overall gain on Forward Contract, the amount should be reflected in the Balance Sheet as a recoverable asset with a corresponding credit to Exchange Equalisation Account, which is not presently being done. However, if there is an overall loss, the loss would be reflected in the Balance Sheet as a liability for unrealised loss with a corresponding debit to Profit & Loss Account (Income Statement).

(Para 5.2.7a)

10.7.9(b) The overall value of such contracts which is not discounted at present should be discounted on the Balance Sheet date using the prevalent Reverse Repo rate. (Para 5.2.7b)

10.8. Disclosures

10.8.1 Currently disclosures are made both in the RBI Annual Report Chapter on 'The Reserve Bank's Accounts' and also in the 'Significant Accounting Policies and Notes to the Accounts' attached to the financial statements. All the relevant disclosures should be made only in the 'Significant Accounting Policies and Notes to the Accounts'. (Para 6.2.1)

10.8.2 The disclosures currently made in the Chapter on 'The Bank's Annual Accounts' in the Annual Report and the disclosures made in the financial statements of other central banks as shown in Annex V were examined. The Committee also considered the items for which disclosure is required to be made as recommended in IAS / IFRS based on certain considerations. The recommendations have been incorporated in the Proforma 'Statement of Accounting Policies and Notes to Accounts' accompanying Proforma 'Revised Financial Statements' for the year ended June 30, 2012 given in Annex-II. (Para 6.2.2/6.2.3/6.2.4)

10.8.3 The areas in which currently disclosures may not be necessary have been listed. (Para 6.3)

10.9 Cash Flow Statement:

RBI need not prepare a Cash Flow Statement as part of its financial statements. (Para 7.1.4)

10.10 Consolidated Financial Statement

10.10.1 Given the diverse nature of businesses of the subsidiaries which will remain after the shareholding in NHB is transferred to the Government, the small amount of investment and the asymmetry to the business of the Bank, the consolidation should not be done on a line by line basis but should be as explained below. (Para 8.3.1)

a. the net assets of the subsidiary be shown as a separate item in the Balance Sheet.
b. the net profit after tax for the year for DICGC be shown as a separate item on the income side of the Profit & Loss account (Income Statement).
c. the net profit after tax for the year of BRBNML be shown as a disclosed deduction from "Printing of Notes" in the expenditure side of the Profit & Loss Account (Income Statement).
d. the aggregate reserves of the subsidiaries be separately disclosed in the Balance Sheet. (Para 8.3.2)

10.10.2 The statement of 'Accounting Policies and Notes to Accounts' attached to the consolidated accounts, should explain the basis of consolidation. As there is no relevant material information beyond what is required to be given in the similar statement attached to the stand alone financial statements of the Bank, it may be sufficient if, a reference is invited to the 'Statement of Accounting Policies and Notes to Accounts' as appearing in the stand alone accounts of the Bank. (Para 8.3.3)

10.11 Accounting Year:

While it may be technically possible to operate with a April / March accounting year, particularly with the greater facility provided by Information Technology (IT), the balance of convenience seems to be to continue for the present with the July / June accounting year. (Para 9.3)

10.12. Unit of Reporting:

The figures in the balance sheet and the income statement may be represented in crores of Rupees and two decimal (representing lakhs).

(Para 9.5)

(Y. H. Malegam)
Chairman

(Indira Rajaraman)
Member

(B. Mahapatra)
(Member)

(P.R. Ramesh)
Member

(V. Venkataramanan)
(Member)

(S. Ganesh Kumar)
Member-Secretary

Mumbai
April 30, 2013.

Chapter 11-Acknowledgements

Over a four month period, the Committee met on six occasions i.e. January 02, February 01, March 05, March 15, April 03 and April 25, 2013 and had extensive deliberations for finalization of its recommendations. The Committee wishes to place on record its grateful appreciation to all the officials who painstakingly rendered significant assistance to the Committee in the form of background studies and compilation of information regarding various aspects of RBI's accounting practice. The ball was set in motion at the hands of Shri H. R. Khan, Deputy Governor who provided valuable inputs on various indicators as also the need for change in many topical areas.

Shri A. K. Bera, CGM-I-C, participated effectively in the meetings. Ms. Monisha Chakraborty, General Manager, RBI, provided overall support in the finalization of the report, in addition to providing considerable inputs on cross-country comparisons. Apart from providing valuable inputs, the detailed compilation of the practices followed by the other central banks as summarized in Annex V is the outcome of extensive work carried out by Shri N. Ramasubramanian, Assistant General Manager, RBI for whom the RBI's Balance Sheet has been a passion. Ms. Nidhi Shrivastava, Assistant General Manager, RBI, also contributed in the preparation of background material and in the deliberations of the Group. Ms. Purnima Lakra, Manager, RBI, with her acumen for figures and accounting intricacies has been the pillar of support in working out various combinations whenever required by the Committee and has successfully channeled her accountancy skills in the preparation of various statements.

Shri N. J. Deshpande, Assistant Manager, RBI, Shri Rajesh Salvi, Assistant Manager, RBI had played a vital role in organising the meetings and providing support.

Annex-I

Reserve Bank of India

Constitution of Technical Committee to review the form of presentation of the Balance Sheet of the Reserve Bank of India

1. The Reserve Bank of India (RBI), as the central bank of the country, is the sole monetary authority and issuer of currency notes. It regulates the supply of currency and credit in the economy to secure monetary or price stability and is vested with the responsibility of regulation and supervision over the country's banking system. These operations of RBI directly influence its balance sheet and profit and loss account. Regulation 22 of RBI General Regulations, 1949 specifies that "the Central Board (of RBI) shall cause the books of the Bank to be balanced on the last working day of the month of June in each year and the annual accounts shall be set out as follows:

   i. A balance sheet in the form prescribed by the Central Government.
   ii. A profit and loss account for the year …. containing the particulars therein prescribed …"

2. Over the years, with a view to improving the disclosure, transparency and information content in the balance sheet and profit and loss account of RBI, several changes have been brought out in its presentation and the explanatory notes to the accounts. Nevertheless, in order to keep pace with the changing requirements and meet the market expectations for bringing in more clarity and lucidity in its presentation for the wider readership, it has been felt that the existing arrangement may be reviewed in a comprehensive manner benchmarking with the best international practices. Accordingly, it has been decided to constitute a Technical Committee to examine the form of presentation of the Balance Sheet and Profit and Loss Account, and the style and content of the management commentaries on the financial statements and notes to the accounts of the balance sheet of the Reserve Bank of India, and make recommendations to effect changes if necessary, by appropriate legislative/regulatory modifications. The terms of reference of the Committee will be as under:

   i. Whether the existing presentation of two separate Balance Sheets of Issue and Banking Departments (depicting currency liabilities and others) is in accordance with practices followed by Central Banks generally or whether the two Balance sheets need to be merged into a single Balance Sheet of the Bank;

ii. Whether in accordance with practices followed by Central Banks generally, it is necessary to have separate Profit and Loss Accounts for the Issue and Banking Departments or whether the present form of a combined Profit and Loss Account shall continue;

iii. Whether the disclosures presently made in the Balance Sheet and Profit and Loss Account and the notes to accounts are adequate or can be improved; and

iv. Any other issue germane to the subject.

3. The constitution of the Committee will be as under:

i.	Shri Y. H. Malegam Director on the Central Board of the RBI	Chairman
ii.	Ms Indira Rajaraman Director on the Central Board of the RBI	Member
iii.	Shri B. Mahapatra Executive Director, RBI	Member
iv.	Shri P. R. Ramesh Chairman, Deloitte Haskins and Sells	Member
v.	Shri V. Venkataramanan Partner, KPMG	Member
vi.	Shri S. Ganeshkumar Chief General Manager, DGBA, RBI	Member- Secretary

4. The Committee will be assisted by key resource persons from within the RBI and will seek views/comments of experts from outside the RBI.

5. The Committee will submit its report by 31 March, 2013.

Mumbai **(D. Subbarao)**
Date: November 12, 2012 **Governor**

Annex -II.A

RESERVE BANK OF INDIA

PROFORMA BALANCE SHEET AS ON 30th JUNE 2012

(Amount in ₹ crore)

Liabilities	Sche-dules	2010-11	2011-12	Assets	Sche-dules	2010-11	2011-12
Capital		5.00	5.00	**Assets of Issue Department**			
Reserve Fund		6,500.00	6,500.00	Gold coin and Bullion(Note issue backing)		57,806.53	76,009.68
Other Reserves	1	214.00	216.00	Foreign securities		9,10,165.62	10,26,196.69
Notes issued	2	9,69,276.38	11,03,473.45	Rupee coin		257.81	220.65
Deposits	3	4,13,640.44	3,72,368.36	Government of India rupee securities		1,046.43	1,046.43
Other Liabilities and Provisions	4	4,15,030.29	7,26,381.85	Domestic Bills of Exchange and other Commercial Papers		–	–
						9,69,276.38	**11,03,473.45**
				Assets of Banking Department			
				Notes, rupee coin, small coin	5	15.21	8.97
				Gold Coin and Bullion		52,510.70	69,046.22
				Balances held abroad		3,03,530.93	3,64,027.31
				Investments	6	4,57,306.22	6,29,289.70
				Bills Purchased and Discounted :		–	–
				(a) Internal		–	–
				(b) External		–	–
				(c) Government Treasury Bills		–	–
				Loans and Advances	7	3,388.48	20,585.27
				Investment in subsidiaries	8	1,300	1,300
				Other Assets	9	17,338.19	21,213.74
Total Liabilities		**18,04,666.11**	**22,08,944.66**	**Total Assets**		**18,04,666.11**	**22,08,944.66**

Note: *Proforma 'Statement of Accounting Policies and Notes to Accounts' and the Schedules form an integral part of the Financial Statement.*

ANNEX- II.B

RESERVE BANK OF INDIA

PROFORMA INCOME STATEMENT (STANDALONE) FOR THE YEAR ENDED 30th JUNE 2012

(Amount in ₹ crore)

INCOME		Schedules	2010-11	2011-12
Interest			32,543.79	50,210.05
Others		10	4,526.33	2,966.28
Total			**37,070.12**	**53,176.33**
EXPENDITURE				
Security Printing (Cheque, Note forms, etc.)			2,376.37	2,703.71
Expense on Remittance of Currency			45.53	52.82
Agency Charges			3,012.49	3,350.88
Interest			55.06	58.78
Employee Cost [1]			2,300.71	2,993.50
Postage and Telecommunication Charges			71.84	80.49
Printing and Stationery			23.33	25.72
Rent, Taxes, Insurance, Lighting, etc.			85.50	102.29
Repairs and Maintenance			87.61	86.3
Directors' and Local Board Members' Fees and Expenses			2.30	2.98
Auditors' Fees and Expenses			3.14	2.68
Law Charges			3.27	2.79
Miscellaneous Expenses			431.76	517.78
Depreciation			156.31	156.17
Provisions [2]			13,401.90	**27,025.44**
Total			**22,057.12**	**37,162.33**
Available Balance			**15,013.00**	**16,014.00**
Less:				
a) Contribution to:				
i) National Industrial Credit (Long Term Operations) Fund	1.00			
ii) National Housing Credit (Long Term Operations) Fund	1.00			
b) Transferable to NABARD:				
i) National Rural Credit (Long Term Operations) Fund [3]	1.00			
ii) National Rural Credit (Stabilisation) Fund [3]	1.00			
			4.00	**4.00**
Surplus payable to the Central Government			**15,009.00**	**16,010.00**

1. Includes travelling expenses which will be transferred to appropriate head.
2. Only Contingency Reserve and Asset Development Reserve have been taken for purpose of Proforma Income Statement.
3. These funds are maintained by the National Bank for Agriculture and Rural Development (NABARD).

***Note:** Proforma 'Statement of Accounting Policies and Notes to Accounts' and the Schedules form an integral part of the Financial Statement.*

SCHEDULES TO BALANCE SHEET AND STANDALONE INCOME STATEMENT

(Amount in ₹ crore)

Schedule 1: Other Reserves

	2010-11	2011-12
(i) National Industrial Credit (Long Term Operations) Fund	20.00	21.00
(ii) National Housing Credit (Long Term Operations) Fund	194.00	195.00
Total	**214.00**	**216.00**

Schedule 2: Total notes issued

	2010-11	2011-12
Notes held in the Banking Department	15.14	8.92
Notes in circulation	9,69,261.24	11,03,464.53
Total	**9,69,276.38**	**11,03,473.45**

Schedule 3: Deposits

	2010-11	2011-12
(a) Government		
(iii) Central Government	100.51	100.49
(iv) State Governments	42.44	42.46
(b) Banks		
(i) Scheduled Commercial Banks	3,81,206.41	3,41,953.57
(ii) Scheduled State Co-operative Banks	3,679.82	3324.27
(iii) Other Scheduled Co-operative Banks	5,755.36	5,364.36
(iv) Non-Scheduled State Co-operative Banks	67.32	91.62
(v) Other Banks	10,357.81	9,287.00
(c) Others		
(i) Administrators of RBI Employee PF A/c	3013	3,355.40
(ii) Gratuity and Superannuation Fund	6388.14	7184
(iii) Balances of foreign central banks	608.93	992.31
(iv) Balances of Indian financial institutions	198.94	126.68
(v) Balances of international financial institutions	116.30	125.16
(vi) Mutual Fund	2.44	1.43
(vii) Others	2,103.01	419.60
Total	**4,13,640.44**	**3,72,368.36**

Schedule 4: Other liabilities and provisions

	2010-11	2011-12
(i) Contingency Reserve	1,70,727.87	1,95,405.08
(ii) Asset Development Reserve	15,866.21	18,214.44
(iii) Currency and Gold Revaluation Account	1,82,286.04	4,73,171.54
(iv) Investment Revaluation Account	4,269.09	12,222.23
(v) Exchange Equalisation Account	1.12	2,404.73
(vi) Settlement Liabilities	16,688.64	Nil
(vii) Provision for Outstanding expenses	1,517.53	1,615.57
(viii) Surplus Transferable to the Government of India	15,009.00	16,010.00
(ix) Bills Payable	833.14	27.04
(x) Miscellaneous	7,831.65	7,311.22
Total	**415030.29**	**726381.85**

Schedule 5: Notes, Rupee coin, Small Coin (with RBI)

	2010-11	2011-12
Notes	15.14	8.92

	Rupee coin	0.05	0.04
	Small coin	0.02	0.01
	Total	**15.21**	**8.97**

Schedule 6:	Investments	2010-11	2011-12
	Rupee securities	4,02,238.95	5,70,212.21
	Shares in BIS/SWIFT	212.89	254.18
	National Bank for Agriculture and Rural Development	20.00	20.00
	Foreign securities*	54,834.38	58,803.31
	Total	**4,57,306.22**	**6,29,289.70**

* Foreign securities earmarked and held in the Banking Department as asset backing against future expansion of Issue Department liabilities.

Schedule 7:	Loans and Advances	2010-11	2011-12
	(A)Loans and Advances to :		
	(i) Central Government	770.00	–
	(ii) State Governments	76.51	730.74
	(B)Loans and Advances to:		
	(i) Scheduled Commercial Banks	1,746.69	16,796.28
	(ii) Scheduled State Co-operative Banks	–	39.00
	(iii) Other Scheduled Co-operative Banks	–	129.00
	(iv) Non-Scheduled State Co-operative Banks	–	–
	(v) NABARD	–	–
	(vi) Others	795.28	2,890.25
	(C)Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:		
	(a) Loans and Advances to:		
	(i) Industrial Development Bank of India	–	–
	(ii) Export Import Bank of India	–	–
	(iii) Industrial Investment Bank of India Ltd.	–	–
	(iv) Others	–	–
	(b) Investments in bonds/ debentures issued by:		
	(i) Industrial Development Bank of India	–	–
	(ii) Export Import Bank of India	–	–
	(iii) Industrial Investment Bank of India Ltd.	–	–
	(iv) Others	–	–
	(D)Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:		
	(a) Loans and Advances to National Housing Bank	–	–
	(b) Investments in bonds/debentures issued by National Housing Bank	–	–
	Total	**3,388.48**	**20,585.27**

Schedule 8:	Investment in subsidiaries	2010-11	2011-12
	(i) Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
	(ii) National Housing Bank	450.00	450.00
	(iii) Bhartiya Reserve Bank Note Mudran(P) Ltd	800.00	800.00
	Total	**1,300.00**	**1,300.00**

Schedule 9:	Other Assets	2010-11	2011-12

(i) Fixed Asset (net of depreciation)		488.29	436.96
(ii) Income Accrued		15,901.00	19,510.73
(iii) Miscellaneous		948.90	1,266.05
	Total	**17,338.19**	**21,213.74**

Schedule 10:	**Income-Others**		**2010-11**	**2011-12**
	(i) Discount		1,739.15	2,144.60
	(ii) Exchange		1,898.58	-205.83
	(iii) Commission		781.48	952.36
	(iv) Rent Realised		3.83	4
	(v) Profit/Loss on sale of Bank's Property		2.93	1.81
	(vi) Provision no longer required		100.36	69.34
		Total	**4,526.33**	**2,966.28**

Proforma Statement of Accounting Policies and Notes to Accounts forming parts of the accounting statements for the year ended June 30, 2012.

1. General

1.1 The Reserve Bank of India was established under the Reserve Bank of India Act, 1934 (the Act) "to regulate the issues of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage".

1.2 The main functions of the Bank are :-

(a) the issue of Bank notes.

(b) the management of the monetary system.

(c) the regulation and supervision of banks and Non –Banking Finance Companies (NBFCs).

(d) as a lender of the last resort.

(e) as manager of the Payment and Settlement System.

(f) as the holder of the country's foreign exchange reserves.

(g) as a banker to the banks and the Government

(h) as the manager of the debt of the Government.

(i) regulation and development of foreign exchange market.

(j) to act as catalyst for developmental functions including in the areas of rural credit and financial inclusion.

1.3 The financial statements are prepared in accordance with the provisions of the Reserve Bank of India General Regulations, 1949 (the Regulations), the Reserve Bank of India Act, 1934 and the notifications issued there under.

2. Issue Department

2.1 The Act requires that the issue of Bank notes should be conducted by the Bank in an Issue Department which shall be separate and kept wholly distinct from the Banking Department and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department.

2.2 The Act requires that the assets of the Issue Department shall consist of gold coin, gold bullion, foreign securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department.

2.3 The Act requires that the liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and Bank notes for the time being in circulation.

3. Significant Accounting Policies

3.1 The Bank follows the historical cost and accrual bases of accounting (except for certain financial instruments which are measured on fair value basis).

3.2 Gold coin and bullion are carried in the Balance Sheet at the prevalent international price at the balance sheet date and the unrealised gain/loss arising from such revaluation is transferred to the Currency and Gold Revaluation Account (CGRA).

3.3.1 Foreign securities and balances held abroad are translated at each Balance Sheet date at the applicable closing exchange rate or at contractually fixed exchange rates. The unrealised gains and losses arising from such translation are transferred to the Currency and Gold Revaluation Account.

3.3.2 Foreign securities other than Treasury Bills are valued at prevailing market price on the Balance Sheet date except certain 'Held to Maturity' securities, which are valued at cost. The unrealised gain or loss arising on such marking to market is transferred to the Investment Revaluation Account (IRA). Foreign T-bills are carried at amortised cost.

3.3.3 Open forward exchange contracts are valued at each Balance Sheet date at the prevailing appropriate exchange rate discounted at the reverse repo rate. The resultant unrealised gain or loss is transferred to the Exchange Equalisation Accounts (EEA).

3.3.4 Domestic Securities, other than treasury bills and investments held to maturity, are carried at market value as at the Balance Sheet date and the resultant unrealised gain or loss arising on such revaluation is transferred to IRA. Domestic T-bills and HTM investments are carried at cost.

3.4 If the transfer of unrealised loss to any of the accounts listed at paras 3.3.1 to 3.3.4 above, results in a debit balance, then such debits will be charged off to the Profit & Loss Account (Income Statement).

3.5 Investments in subsidiaries are carried in the Balance Sheet at cost.

3.6.1 Fixed Assets are carried in the balance sheet at cost less accumulated depreciation to date. Depreciation is provided on a straight line basis.

3.6.2 In respect of buildings, the written down value as at June 30, 2012 is assumed as the cost. Depreciation on buildings is provided on the assumed cost as at June 30, 2012 at half the rate at which depreciation will be provided on additions subsequent to that date.

3.7 Revenue and expenditure are recognized on accrual basis.

4. Notes to the Accounts

4.1 Capital

The Capital of the Bank, of ₹5 crore, is held by the Government of India.

4.2 Reserve Fund

The Reserve Fund consists of ₹6,500 crore comprising an initial contribution of ₹5 crore by the Government of India and subsequent transfers aggregating to ₹6,495 crore from the Profit & Loss Account up to October 1990 representing unrealised gains on revaluation of gold. Such unrealised gains arising in subsequent periods have been transferred to CGRA.

4.3 National Industrial Credit (Long Term Operations) Fund

This fund was created in July 1964 under Section 46C of the Act with an initial corpus of ₹10 crore to provide financial assistance to eligible financial institutions. Annual transfers are made from the Profit & Loss Account (Income Statement) to the Fund.

4.4 **National Housing Credit (Long Term Operations) Fund**

This fund was created in January 1989 under Section 46D of the Act with an initial corpus of ₹60 crore for extending financial accommodation to the National Housing Bank. Annual transfers are made from the Profit & Loss Account (Income Statement) to the Fund.

4.5 **Deposits – Government**

The Bank acts as the banker to the Central Government in terms of Sections 20 and 21 of the Act and as banker to the State Governments by mutual agreement in terms of Section 21A of the Act.

4.6 **Deposits – Banks**

These are balances maintained by banks in their current account with the Bank for maintaining Cash Reserve Ratio (CRR) and as working funds for meeting payment and settlement obligations. Deposits do not carry any interest.

4.7 **Deposits – Others**

These include mainly

a) deposits from financial institutions

b) sundry deposits and

c) balances in the (i) Employee Provident Fund and (ii) Gratuity & Superannuation Fund. Interest at a rate determined each year is credited to these Funds. Investments of an equivalent value have been ear-marked in respect of all these Funds.

4.8 **Reserves and Provisions**

4.8.1 Contingency Reserve represents the amounts provided on year to year basis for meeting unexpected and unforeseen contingencies including depreciation in the value of securities, risks arising out of monetary / exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Bank.

4.8.2 The Asset Development Reserve represents the amounts provided out of profits each year to meet internal capital expenditure and make investments in subsidiaries and associated institutions.

4.8.3 The Currency and Gold Revaluation Account reflects the unrealised gains/losses on revaluation of foreign currency assets and gold which are transferred to this account.

4.8.4 The Investment Revaluation Account represents the unrealised gains/losses arising on marking foreign and rupee dated securities to market which are transferred to this account.

4.8.5 The Exchange Equalisation Account represents the provision made for the unrealised exchange losses arising from forward commitments transferred to this account.

4.8.6 The movement in the Contingency Reserve and Asset Development Reserve during the year is as under:-

(Amount in ₹crore)

	Contingency Reserve	Asset Development Reserve
As at June 30, 2011	170,727.87	15,866.21
Transfer during the year	24,677.21	2,348.33
Total (as on June 30, 2012)	**195,405.08**	**18,214.44**

4.9 **Foreign Currency Assets**

4.9.1 Foreign Currency Assets consist of

(a) balances held abroad

(b) foreign securities held as Issue Department investments and

(c) foreign securities held as Banking Department investments

4.9.2 Balances held abroad include

(a) deposits with other central banks

(b) deposits with the Bank for International Settlements and

(c) balances with foreign commercial banks.

4.9.3 Foreign securities represent debt of Sovereigns and Supra – national institutions and other instrument or institution as approved by the Central Board of the Bank in accordance with the provisions of the Act.

4.9.4 The Reserve Bank has agreed to make resources available under the IMF's New Arrangements to Borrow (NAB) up to an amount of SDR 8,740.82 million (₹74,693 crore / US $ 13.25 billion) as on June 30, 2012, investments amounting to SDR 1,020 million (₹87.16 billion / US $ 1.55 billion) have been made in notes issued under NAB.

4.9.5 The Reserve Bank has agreed to invest up to an aggregate amount of US $ 5 billion (₹28,155 crore) in the bonds issued by India Infrastructure Finance Company (UK) Limited. As on June 30, 2012 the Bank has invested US$ 673 million (₹ 3,790 crore) in such bonds.

4.10 **Foreign Exchange Reserves**

The Foreign Exchange Reserves as at June 30, 2012 consist of the following:

(Amount in ₹ crore)

(a) Gold		
- Issue Department	76,010	
- Banking Department	690,46	**1,45,056**
(b) Foreign Securities		
- Issue Department	10,26,197	
- Banking Department	58,803	**10,850.00**
(c) Balances held abroad		
-Banking Department		3,64,027
(d) Special Drawing Rights (SDR)		24,659
(e) Reserve Tranche Position (RTP) in the IMF		16,299
		16,350.41

Special Drawing Rights and Reserve Tranche Position in the IMF are not part of the Bank's balance sheet but are held by the Government of India.

4.11 **Investments**

Investments in Oil Bonds (valued at cost ₹47,871.78 crore) are considered as 'Held to Maturity' and carried at cost. All other investments are treated as 'Available for Sale' and marked to market, based on observable inputs provided by FIMMDA.

4.12 **Investments in shares of subsidiaries and associated Institutions**

The details of these investments which are carried at cost are as under:

(Amount in ₹ crore)

		Cost	% holding
(a)	Deposit Insurance and Credit Guarantee Corporation (DICGC)	50.00	100
(b)	National Bank for Agriculture and Rural Development (NABARD)	20.00	1
(c)	National Housing Bank (NHB)	450.00	100
(d)	Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL)	800.00	100
		1,320.00	

4.13 **Employee Costs**

4.13.1 Bank's Investments equivalent to the balances in Provident Fund, Gratuity & Superannuation Fund and Leave Encashment Fund have been ear-marked for these Funds. Provident Fund and Gratuity & Superannuation Fund are held as 'Deposits' with the Bank. Leave Encashment Fund for retiring employees is included under 'Other Liabilities'.

4.13.2 The assumptions made for the computation of the liability under the Gratuity & Superannuation Fund and Leave Encashment Fund for retiring employees are as under:

	Gratuity & Superannuation Fund	Leave Encashment Fund for retiring employees
Discount Factor		
Salary Increment %		
Life Expectancy Table		
Expected Rate of Earning (average salary per month per person)		

4.14 **Provisions**

Provisions include the transfers to Contingency Reserve and Asset Development Reserve as also the unrealised gains and losses transferred to

Currency and Gold Revaluation Account, Investment Revaluation Account and Exchange Equalisation Account.

4.15 **Taxation**

Under Section 48 of the Reserve Bank Act, 1934 the Bank is not liable to pay income tax or super tax or any other tax on any of its income, profits or gains and is also exempt from payment of wealth tax.

4.16 **Surplus transferred to Government of India (GoI)**

4.16.1 Under Section 47 of the Act, after making provisions for bad and doubtful debts, depreciation in assets, contribution to staff and superannuation fund and for all matters for which provision is to be made by or under the Act or which are usually provided by bankers, the balance of the profits of the Bank are required to be paid to the Central Government.

4.16.2 The transfer of ₹16,010 crore to the GoI during the year includes ₹1,322 crores payable to the Central Government towards the interest differential on special securities converted into marketable securities. This interest differential is paid to compensate the Government for the difference in the interest expenditure borne by the Government consequent on the conversion of such special securities into dated securities.

ANNEX- III

RESERVE BANK OF INDIA

PROFORMA OF CONSOLIDATED BALANCE SHEET AS ON 30th JUNE 2012

(₹ crores)

Liabilities	Schedules	2010-11	2011-12	Assets	Schedules	2010-11	2011-12
				Assets of Issue Department			
Capital		5.00	5.00	Gold coin and Bullion (Note issue backing)		57,806.53	76,009.68
Reserve Fund		6,500.00	6,500.00	Foreign Securities		9,10,165.61	1,02,6196.69
Reserves of Subsidiaries		24,414.01	29,244.74	Rupee coin		257.81	220.65
Other Reserves	1	214.00	216.00	Government of India Rupee Securities		1,046.43	1,046.43
Notes issued	2	96,9276.38	11,03,473.45	Domestic Bills of Exchange and other Commercial Papers		–	–
Deposits	3	4,13,640.44	3,72,368.36			**96,9276.38**	**11,03,473.45**
Other Liabilities and Provisions	4	415,030.29	726,381.85	**Assets of Banking Department**			
				Notes, rupee coin, small coin	5	15.21	8.97
				Gold coin and Bullion		52,510.70	69,046.22
				Balances Held Abroad		3,03,530.93	3,64,027.31
				Investments	6	4,57,306.22	6,29,289.71
				Bills Purchased and Discounted :		–	–
				(a) Internal		–	–
				(b) External		–	–
				(c) Government Treasury Bills		–	–
				Loans and Advances	7	3,388.48	20,585.27
				Net assets of subsidiaries	8	25,714.01	30,544.73
				Other Assets	9	17,338.19	21,213.74
Total Liabilities		**18,29,080.12**	**22,38,189.40**	**Total Assets**		**18,29,080.12**	**22,38,189.40**

Note: *Schedules and Statement of Accounting policies and Notes to Accounts (page 65) forms an integral part of the Consolidated Income Statement.*

SCHEDULES TO THE CONSOLIDATED BALANCE SHEET

Schedule 1:	**Other Reserves**	**2010-11**	**2011-12**
	I.National Industrial Credit (Long Term Operations) Fund	20.00	21.00
	II.National Housing Credit (Long Term Operations) Fund	194.00	195.00
	Total	**214.00**	**216.00**

Schedule 2:	**Total notes issued**	**2010-11**	**2011-12**
	Notes held in the Banking Department	15.14	8.92
	Notes in circulation	9,69,261.24	11,03,464.53
	Total	**9,69,276.38**	**11,03,473.45**

Schedule 3:	**Deposits**	**2010-11**	**2011-12**
	(a) Government		
	(i) Central Government	100.51	100.49
	(ii) State Governments	42.44	42.46
	(b) Banks		
	(i) Scheduled Commercial Banks	381206.41	341953.57
	(ii) Scheduled State Co-operative Banks	3679.82	3324.27
	(iii) Other Scheduled Co-operative Banks	5755.36	5364.36
	(iv) Non-Scheduled State Co-operative Banks	67.32	91.62
	(v) Other Banks	10357.81	9287.00
	(c) Others		
	(i) Administrators of RBI Employee PF A/c	3013	3355.40
	(ii) Gratuity and Superannuation Fund	6388.14	7184
	(iii) Balances of foreign central banks	608.93	992.31
	(iv) Balances of Indian financial institutions	198.94	126.68
	(v) Balances of international financial institutions	116.30	125.16
	(vi) Mutual Fund	2.44	1.43
	(vii) Others	2103.01	419.60
	Total	**413640.44**	**372368.36**

Schedule 4:	**Other liabilities and provisions**	**2010-11**	**2011-12**
	(i) Contingency Reserve	170727.87	195405.08
	(ii) Asset Development Reserve	15,866.21	18,214.44
	(iii) Currency and Gold Revaluation Account	182286.04	473171.54
	(iv) Investment Revaluation Account	4269.09	12222.23
	(v) Exchange Equalisation Account	1.12	2,404.73
	(vi) Settlement Liabilities	16,688.64	NIL
	(vii) Provision for Outstanding expenses	1,517.53	1,615.57
	(viii) Surplus transferable to the Government	15,009.00	16,010.00
	(ix) Bills Payable	833.14	27.04
	(x) Miscellaneous	7,831.65	7,311.22
	Total	**415,030.29**	**726,381.85**

Schedule 5:	Notes, rupee coin, small Coin (with RBI)	2010-11	2011-12
	Notes	15.14	8.92
	Rupee coin	0.05	0.04
	Small coin	0.02	0.01
	Total	**15.21**	**8.97**

Schedule 6:	Investments	2010-11	2011-12
	Rupee securities	4,02,238.95	5,70,212.21
	National Bank for Agriculture and Rural Development	20.00	20.00
	Shares in BIS/SWIFT	212.89	254.18
	Foreign securities*	54,834.38	58,803.31
	Total	**4,57,306.22**	**6,29,289.71**

* Foreign securities earmarked and held in the Banking Department as asset backing against future expansion of Issue Department liabilities.

Schedule 7:	Loans and Advances	2010-11	2011-12
	(A)Loans and Advances to :		
	(i) Central Government	770.00	–
	(ii) State Governments	76.51	730.74
	(B)Loans and Advances to:		
	(i) Scheduled Commercial Banks	1746.69	16796.28
	(ii) Scheduled State Co-operative Banks	–	39.00
	(iii) Other Scheduled Co-operative Banks	–	129.00
	(iv) Non-Scheduled State Co-operative Banks	–	–
	(v) NABARD	–	–
	(vi) Others	795.28	2890.25
	(C)Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:		
	(a) Loans and Advances to:		
	(i) Industrial Development Bank of India	–	–
	(ii) Export Import Bank of India	–	–
	(iii) Industrial Investment Bank of India Ltd.	–	–
	(iv) Others	–	–
	(b) Investments in bonds/ debentures issued by:		
	(i) Industrial Development Bank of India	–	–
	(ii) Export Import Bank of India	–	–
	(iii) Industrial Investment Bank of India Ltd.	–	–
	(iv) Others	–	–
	(D)Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:		
	(a) Loans and Advances to National Housing Bank	–	–
	(b) Investments in bonds/debentures issued by National Housing Bank	–	–
	Total	**3,388.48**	**20,585.27**

Schedule 8:	Net Assets of subsidiaries @	2010-11	2011-12
	(i) Deposit Insurance and Credit Guarantee Corporation	21,728.60	26,105.65
	(ii) National Housing Bank	2,148.81	2,478.88
	(iii) Bharatiya Reserve Bank Note Mudran (P) Ltd	1,836.60	1,960.20
	Total	**25,714.01**	**30,544.73**

@Capital plus Free Reserves

Schedule 9:	Other Assets		2010-11	2011-12
	(i) Fixed Asset (net of depreciation)		488.29	436.96
	(ii) Income Accrued		15,901.00	19,510.73
	(iii) Miscellaneous		948.90	1,266.05
		Total	**17,338.19**	**21,213.74**

ANNEX- IV

RESERVE BANK OF INDIA

PROFORMA CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30th JUNE 2012

(₹ crore)

INCOME		Schedules	2010-11	2011-12
Interest			32,543.79	50,210.05
Net income of subsidiaries (other than BRBNMPL)		I	4,354.84	4,764.15
Others		II	4,526.33	2,966.28
Total			**41,424.96**	**57,940.48**
EXPENDITURE				
Net Security Printing (Cheque, Note forms, etc.)		III	2,214.60	2,580.11
Expense on Remittance of Currency			45.53	52.82
Agency Charges			3,012.49	3,350.88
Interest			55.06	58.78
Employee Cost [1]			2,300.71	2,993.50
Postage and Telecommunication Charges			71.84	80.49
Printing and Stationery			23.33	25.72
Rent, Taxes, Insurance, Lighting, etc.			85.50	102.29
Repairs and Maintenance			87.61	86.3
Directors' and Local Board Members' fees and expenses			2.30	2.98
Auditors' fees and expenses			3.14	2.68
Law Charges			3.27	2.79
Miscellaneous expenses			431.76	517.78
Depreciation			156.31	156.17
Provisions [2]			13,401.90	**27,025.44**
Total			**21,895.35**	**37,038.72**
Available Balance			**19,529.61**	**20,901.75**
a. Contribution to:				
i) National Industrial Credit (Long Term Operations) Fund	1.00			
ii) National Housing Credit (Long Term Operations) Fund	1.00			
b. Transferable to NABARD:				
i) National Rural Credit (Long Term Operations) Fund3	1.00			
ii) National Rural Credit (Stabilisation) Fund 3	1.00			
			4.00	**4.00**
c. Transfer to Reserves of Subsidiaries		IV	**4,516.61**	**4,887.75**
Surplus payable to the Central Government			**15,009.00**	**16,010.00**

1. Includes travelling expenses which will be transferred to appropriate head.
2. Only Contingency Reserve and Asset Development Reserve have been taken for purpose of Proforma Income Statement.
3. These funds are maintained by the National Bank for Agriculture and Rural Development (NABARD).

Note: *Schedules and Statement of Accounting policies and Notes to Accounts(page 65) forms an integral part of the Consolidated Income Statement.*

SCHEDULES TO THE CONSOLIDATED INCOME STATEMENT

Schedule I:Net Income of subsidiaries	**2010-11**	**2011-12**
(i) National Housing Bank (NHB)	278.93	387.10
(ii) Deposit Insurance and Credit Guarantee Corporation (DICGC)	4,075.91	4,377.05
Total	**4,354.84**	**4,764.15**

Schedule II: Others	**2010-11**	**2011-12**
(iii) Discount	1,739.15	2,144.60
(iv) Exchange	1,898.58	-205.83
(v) Commission	781.48	952.36
(vi) Rent Realised	3.83	4
(vii) Profit/Loss on sale of Bank's Property	2.93	1.81
(viii) Provision no longer required	100.36	69.34
Total	**4,526.33**	**2,966.28**

Schedule III: Net Security Printing (Cheque, Note forms, etc.)	**2010-11**	**2011-12**
Cost of Security Printing (Cheque, Note forms, etc.)	2,376.37	2,703.71
Less: Net income over expenditure of Bharatiya Reserve Bank Note Mudran Pvt. Ltd.(BRBNMPL)	161.77	123.60
Net Security Printing (Cheque, Note forms, etc.)	**2,214.60**	**2,580.11**

Schedule IV: Surplus allocation	**2010-11**	**2011-12**
I. Surplus available for various funds and reserves of NHB	278.93	387.10
II. Surplus available for various funds & reserves of DICGC	4,075.91	4,377.05
III. Surplus added to Reserves &surplus of BRBNMPL	161.77	123.60
Total	**4,516.61**	**4,887.75**

Statement of Accounting policies and Notes to Accounts

1. Given the diverse nature of businesses of the subsidiaries and the small amount of investment and asymmetry to the business of the Bank, consolidation has not been done on a line by line basis.
2. Attention is invited to the 'Statement of Accounting Policies and Notes to Accounts' annexed to the Standalone Revised Financial Statements of the Bank.

Annex-V

A Brief Comparative Analysis of Financial Statements of various Central Banks

I. Legal Framework

In the sample group, all Central banks have been established under a Statute / Act of Parliament. In almost all these banks with the exception of Fed Reserve and Bank of Japan, the shareholding is exclusively held by the government.

II. Functions of the Central Bank

Reserve Bank of India (RBI) does not explicitly state its functions in the annual accounts. Almost all other Central banks list out their functions. Other than the Central banking objectives of monetary policy, foreign reserves management, issue and management of currency, payment systems management, etc., a few Central banks also carry out fiscal responsibilities on behalf of their governments as in the case of India (eg. Bank of Canada, Fed Reserve, Saudi Arabian Monetary Agency and South African Reserve Bank).

Some of the functions that are explicitly listed out by other Central Banks are:

- ❖ Exchange Rate Management (managing the value of domestic currency) – Monetary Authority of Singapore, Bank Negara Malaysia, Hong Kong Monetary Authority and South African Reserve Bank.
- ❖ Securities safekeeping and gold custodial activities for foreign Central Banks and international organizations – Bank of Canada.

III. Balance Sheet Structure

1. Most Central Banks have a single Balance Sheet and Profit & Loss account/Income Statement, some exceptions being Reserve Bank of India, Bank of England and Saudi Arabian Monetary Agency.

2. Most countries provide accompanying notes/schedules to the items disclosed in the financial statements. In case of RBI, no schedules are provided. However, explanations in respect of each item in the financial statements are provided in the management commentary.

3. Most countries provide in detail the composition of their assets, including separate classification of the assets and other disclosures, depending on their functions and the composition of their assets. In addition to the Profit & Loss Account/Income Statement, they also provide additional information through the 'Statement of Comprehensive Income', Cash Flow Statement' (as required under IFRS), etc. In India, such additional information is not made available. Also, no granular details are provided regarding the composition of the assets.

4. The entire income is clubbed under a single head in the Profit & Loss Account/Income Statement by RBI, whereas, most other central banks give a detailed breakup of their income in the Profit & Loss Account/Income Statement itself. Breakup of Income into interest income, interest expenditure, net interest income and other revenue is also provided as in the case of Bank of Canada.

IV. Performance measurement and related disclosures in the financial statements

Very few central banks (e.g. Hong Kong Monetary Authority) provide any information on performance measurement or costing of their activities. HKMA gives detailed disclosure of its administrative costs on staff, premises and general operations and a statement on additional expenses incurred in excess of the budgeted expenses. India does not provide such disclosure. Bank of England also provides breakup of Bank expenditure by function, indicating expenditure on policy functions and on remunerated functions separately.

V. Accounting policies / methodologies for main assets & liabilities

1. No details are provided by RBI in respect of classification of foreign and domestic assets (for instance, whether Fair Value, AFS or HTM). Other central banks give detailed disclosures.

2. Valuation policies of key financial assets differ across countries. Almost all central banks including RBI value gold at market rates except Monetary Authority of Singapore and Fed Reserve, where the gold rate is fixed by law for the purpose of backing gold certificates which are allocated among the

Reserve Banks once a year based on the average Federal Reserve notes outstanding at each Reserve Bank. Saudi Arabian Monetary Agency also values gold at fixed rates. Presently gold is revalued by RBI, on a monthly basis at 90% of the daily average price quoted at London for the month.

3. Some countries also disclose whether they are guided by IFRS principles and the extent of compliance with IFRS guidelines.

VI. Capital and profit distribution (surplus transfer)

1. Indonesia specifically indicates the level of capital required to be maintained as a per cent of the total monetary liabilities, with funds to be derived from general reserves or asset revaluation reserves. Further, percentage of appropriation to the General Reserve is also explicitly provided. Similarly, Bank of Japan calculates its capital adequacy ratio. RBI transfers the balance of its profits to the Central Government as per Section 47 of the RBI Act, 1934, after making provisions for bad and doubtful debts, depreciation in assets, contribution to staff and superannuation fund and for all matters for which provision is to be made by or under the Act or which are usually provided by bankers.

2. European Central Bank (ECB) alone does an interim profit transfer. No other country follows this practice. ECB also specifies the percentage of profit which is to be transferred to the various reserves.

3. In all cases unrealised gains are parked in separate reserve accounts where they remain available to absorb future unrealised losses or become available for distribution when gains are realised as assets are sold. The same practice is followed by RBI.

VII. Method of allocation of Reserves

1. RBI provides details of reserves only as part of the management commentary and not as a part of the financial statement. However, most other countries reveal the breakup of their reserves in the financial statements.

2. RBI makes transfer to the reserves out of the gross income of the Bank as per approved policy and only the remaining gross income is shown in the Profit & Loss Account/Income Statement for the purpose of arriving at net

surplus transferable to the Government. Other Central Banks separately indicate the appropriation to reserves out of the net income of the Bank in their Profit & Loss Account/Income Statement itself.

VIII. Risks and Risk Management measures

There is no mention of the risk management procedures in the Chapter on Annual Accounts of Bank. All other Central Banks in the sample group provide detailed disclosure of their risk management practices.

IX. Other Observations

1. Central Bank of Sri Lanka (CBSL) has set up Market Revaluation Reserve (MRR) to transfer the price valuation gains from marking to market the foreign assets, in order to meet any adverse effects of volatilities in the international markets leading to adverse movements in market prices of the foreign financial assets. The Monetary Board decided to build up this reserve to a maximum of 10% of the gross foreign reserves of the CBSL.

2. Similar to India, Euro system accounting principles require that unrealised gains are not recognized as income but are transferred directly to a liability revaluation account.

3. Bank of Canada does not include gold or foreign currency as part of its assets.

Annex- VI

LIST OF ABBREVIATIONS

1.	ADR	Asset Development Reserve
2.	AFS	Available for Sale
3.	BD	Banking Department
4.	BIS	Bank for International Settlement, Basel
5.	BRBNMPL	Bharatiya Reserve Bank Note Mudran Private Limited
6.	CBSL	Central Bank of Sri Lanka
7.	CGRA	Currency and Gold Revaluation Account
8.	CR	Contingency Reserve
9.	DICGC	Deposit Insurance and Credit Guarantee Corporation
10.	ECB	European Central Bank
11.	EEA	Exchange Equalisation Account
12.	EIR	Effective Interest Rate
13.	FCA	Foreign Currency Assets
14.	GoI	Government of India
15.	HKMA	Hong Kong Monetary Authority
16.	HTM	Held to Maturity
17.	IAS	International Accounting Standards
18.	ID	Issue Department
19.	IFRS	International Financial Reporting Standards
20.	IRA	Investment Revaluation Account
21.	IT	Information Technology
22.	LOBOM	Lower of Book Value or Market Value
23.	MRR	Market Revaluation Reserve
24.	NHB	National Housing Bank
25.	NABARD	National Bank for Agriculture and Rural Development
26.	RBI	Reserve Bank of India
27.	RTP	Reserve Tranche Position
28.	SDR	Special Drawing Right
29.	SWIFT	Society for Worldwide Interbank Financial Telecommunications