

International Financial Standards and Codes

3.32 The Reserve Bank appointed a Standing Committee on International Financial Standards and Codes to prepare a road map for aligning India's standards and practices to the evolving international standards. The Standing Committee set up ten Advisory Groups comprising non-official experts to examine the feasibility and time frame of compliance with international best practices. All the ten Advisory Groups have submitted their reports, which have been posted on RBI website (<http://www.rbi.org.in>). A brief account of the work of each of these Advisory Groups is given below.

3.32.1 Advisory Group on Banking Supervision (*Chairman: Shri M. S. Verma*): The Group assessed the position of the Indian banking system vis-à-vis the principles laid down in 16 papers brought out by the Basel Committee on Banking Supervision. This assessment was done in seven major areas, viz., core principles, corporate governance, internal control, credit risk, loan accounting, transparency and disclosures, financial conglomerates and cross-border banking. The Group concluded that, given the complexity and development of the Indian banking sector, the overall level of compliance with the standards and codes is of a high order. Wherever there are significant gaps, these can be remedied within a reasonable time frame if the necessary legal reforms/amendments are undertaken without delay. The Group has underlined the need to put in place scientific risk management systems in banks.

3.32.2 Advisory Group on Bankruptcy Laws (*Chairman: Dr. N. L. Mitra*): The Group made the following recommendations.

- A comprehensive bankruptcy code incorporating the provisions relating to winding up and liquidation of a corporate entity, reorganisation, and settlement of all other

related issues including cross-border insolvency;

- The repeal of Sick Industrial Companies (Special Provisions) Act and abolition of Board for Industrial and Financial Reconstruction (BIFR);
- The institution of a dedicated High Court bench as bankruptcy court and the replacement of the Office of the Official Liquidator with a professional bankruptcy institution known as "Trustee".
- The evolution of an effective trigger point for bankruptcy, time-bound bankruptcy proceedings, prioritisation of claims and orderly and effective insolvency procedures.

3.32.3 Advisory Group on Corporate Governance (*Chairman: Dr. R. H. Patil*): The Group made recommendations on the areas of responsibilities of the Board of Directors, accountability to stakeholders/ shareholders, selection procedures for the appointment of directors of the board, size and composition and independence of the Board, committees to oversee the practice of corporate governance, disclosure and transparency standards, role of shareholders and auditors, etc. Since most of the companies belong to the East Asian "insider model" involving domination of promoters, the Group felt that it is essential to bring reforms quickly and has suggested amendment of the Companies Act in which the statutory framework for corporate governance has already been enshrined for enforcing good governance practices in India. To improve governance mechanism in public sector units, the Group has recommended transferring of the actual governance functions to the boards from the concerned administrative ministries and making the boards more professional and truly autonomous. Further, the Group has underlined the need for public sector banks to maintain a high degree of transparency in regard to disclosure of information.

3.32.4 Advisory Group on Data Dissemination (*Chairman: Dr. A. Vaidyanathan, vice the late Dr. Pravin M. Visaria*): The Group observed that there were a large number of data categories under which India had been disseminating information more frequently and with a shorter time-lag than those prescribed by the IMF's Special Data Dissemination Standard (SDDS). The Group endorsed the official view that India should opt for the "flexibility" option pertaining to the data on labour market as it would be difficult to generate quarterly data on employment, unemployment and wages/earnings using the ILO's sophisticated concepts, definitions and classifications because of the large agricultural sector and the sizeable unorganised segments in the non-farm sector. The Group proposed compilation of forward-looking indicators like business expectations surveys and coordination between various agencies to facilitate better data dissemination in respect of general government operations.

3.32.5 Advisory Group on Fiscal Transparency (*Chairman: Shri. Montek Singh Ahluwalia*): The Group expressed the view that current fiscal practices at the central government level satisfy the minimum requirements of the IMF's Code of Good Practices on Fiscal Transparency in many areas. The deficiencies in some important areas will substantially be addressed once the Fiscal Responsibility and Budget Management Bill (FRBMB) is enacted. The Group has suggested broadening of the scope of FRBMB to include the essential elements of a budget law, list macro-economic assumptions regarding GDP growth, inflation, BOP, etc. and to project major categories of revenue and expenditure two years ahead. The other important recommendations of the Group relate to increased reporting on contingent liabilities and quasi fiscal activities; quantification of fiscal risks; fuller discussion of the consolidated position of central and state governments especially regarding basic fiscal balance measures; availability of information on the overall public sector balance, government equity and outstanding loans to public sector enterprises and the Oil pool Account deficit. The simplification

of the tax structure, with greater use of information technology, especially electronic filing, is also recommended. Fiscal practices at the state level were felt to be generally behind the standards achieved at the central government level and the Group suggested measures to improve the same.

3.32.6 Advisory Group on Insurance Regulation (*Chairman: Shri R. Ramakrishnan*): The Group was of the view that the Indian position of allowing foreign companies to operate through joint venture arrangements with an Indian company with a shareholding not exceeding 26 per cent in the paid-up capital of the insurer, was not a material departure from international practices. While the Indian stipulations in respect of minimum capital requirements, deposit requirements, business plan, reinsurance and solvency margins were adequate, the Group recommended that minimum capital levels could be fixed for each class of business rather than on aggregate basis. The Group recommended the inclusion of unit-linked life insurance business under the definition of life insurance business, with closer coordination among the regulators. As regards taxation, the Group found that the Indian standard in respect of life insurance was at par with international practice. However, the Group suggested that the transfer from pre-taxed profits to catastrophe reserve could be allowed in certain cases. The Group recommended that possibilities of expanding insurance coverage in rural areas could be explored through Cooperatives.

3.32.7 Advisory Group on International Accounting and Auditing (*Chairman: Shri Y. H. Malegam*): The Group noted that the standards issued by Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) were on par with international standards subject to differences owing to country-specific applicable laws, customs usages and trade practices. The Standard Auditing Practices (SAPs) issued by Auditing Practices Committee of the ICAI were also anchored on the international standards. The Group also discussed the agenda for the future and, in particular, addressed issues pertaining to the need for a single

standard setting authority, the need for convergence of corporate and tax laws associated with various accounting standards, and the method for an effective implementation procedure for the accounting standards in India.

3.32.8 Advisory Group on Transparency in Monetary and Financial Policies (*Chairman: Shri M. Narasimham*): The Group recommended that the Government should set out monetary policy objectives to the central bank, with parliamentary endorsement, and accord it the necessary autonomy to fulfill its responsibilities. The Group also pitched for a reasonable degree of fiscal responsibility to provide the central bank sufficient headroom to operate monetary policy. The Group also proposed the setting up of a Monetary Policy Committee (MPC) comprising the Governor, the three Deputy Governors and three other members from the Central Board with knowledge in macro-economics, monetary analysis, central banking policy and operations, banking and finance.

3.32.9 Advisory Group on Payments and Settlement System (*Chairman: Shri M. G. Bhide*): The Group recommended that there must be a well founded legal basis for deferred net settlement (DNS) system and appropriate framework for NDS and real time gross settlement (RTGS). It underscored the issue that the Reserve Bank must be suitably empowered to supervise the payment and settlement system. The Group also recommended, inter alia, the

introduction of rolling settlement in the liquid segment of the equity market, building up of an institutional mechanism for centralised collection of information, their dissemination to market participants and prudential guidelines for implementing cross-margining across markets in order to deal with problems arising from participants undertaking multiple exposures in various markets at any point in time. The Group had further advocated institution of a separate Settlement Guarantee Fund for Foreign Exchange Clearing as a risk reduction measure, setting up of a clearing agent abroad by the Clearing Corporation of India and integration of the foreign exchange transactions with the proposed RTGS system.

3.32.10 Advisory Group on Securities Market Regulation (*Chairman: Shri Deepak Parekh*): The Group emphasised the need for strengthening inter-regulator cooperation, preferably by bestowing legal status to the High Level Group on Capital Markets. The Group recommended that Securities and Exchange Board of India (SEBI)'s authority over enforcement of securities regulation be enhanced. In regard to stock exchanges, the Group favoured demutualisation as a necessary step for promotion of fairness and investor protection. As regards legal issues, the Group highlighted the need for a shift from institution-specific regulation to market-specific regulation. In respect of mutual funds, the Group underlined the need for bringing Unit Trust of India (UTI) under the purview of SEBI.