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Market Watch

RBI mulling new rules on corporate governance; wants banks to disclose more

BY PTI | UPDATED: NOV 23, 2019, 06.13 AM IST

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MUMBAI: The Reserve Bank is looking at introducing new rules on [corporate governance](#) for banks in sync with global ones, and would also like lenders to disclose more, Deputy Governor [N S Vishwanathan](#) said on Friday.

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Vishwanathan also urged banks to recognise losses because of [NPAs](#) as early as possible and not to defer the same.

The comments from the top central banker come at a time when the system continues to go through the issues of asset quality, even though the new additions have slowed down.

Speaking at an event organised by a business daily, Vishwanathan listed out a slew of initiatives the RBI has undertaken, with the compensation structures for key management personnel and whole-time directors being the latest additions, and hinted that it is looking at more.

"The Basel Committee (where bankers from all over the world discuss strategies) has its own (framework on corporate governance), we are working on that to improve guidelines on that," Vishwanathan said.

Speaking to an audience comprising of all the top bankers, he said the new guidelines will be put in public domain and the RBI will be seeking comments before finalising any rules.

Citing the case of under-reporting of NPAs which used to go unrecognised earlier and is made compulsory now, and the benefits it gets, the DG urged banks to disclose as much as possible to present a truthful picture.

"The default should be disclosed as much as I can so long as I am not hitting a provision of law or I am not providing a market strategy that is taking the bank forward," he said.

He also said that the RBI agrees with capital markets regulator [Sebi](#)'s call on disclosure of divergences immediately by a bank and not waiting till the annual report, because this is price-sensitive information.

Vishwanathan also said that the banks should be working the most on governance practices in order to avoid any difficulties.

"Governance is the thing that banks and financial institutions should look towards. Strengthen governance, recognise losses, look at why losses are beyond appetite, change your operations to conform to [risk governance](#) of the system, improve your compensation system," he said.

Starting from the board level, there is a need for banks to "astutely" follow the RBI's instructions after a supervision report comes out, he said.

On early recognition, he said, "I would urge upon you to say that the best way to deal with a crisis or situation is not to defer the problem, and that is when we are likely to take the right actions at the right time. When things are delayed, it only continues to fester in the system."

He also made his displeasure at banks' tendency to come up with requests for deferring mark to market losses on investments, stating how they are the first ones to recognise profits.

Risk management practices are very important, and conflicts which can avoid like making the chief risk officer part of the loan clearance process, ought to be avoided, he said.

"The important thing that concerns RBI when it comes to financial sector intermediation in general and banks in particular, is risk management. If banks get this right, most of the problems are not likely to be there," he said.

The DG said there is also a need to strengthen the compliance function at banks.

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