

DBS.CO.OSMOS.BC.No.16/33.01.001/2002-2003 name=Reference>

Also Refer

DBS.CO.OSMOS.BC.No.4/33.01.001.2003-04 dt 02-08-03
DBS.CO.OSMOS.BC.No.1/33.01.001/2003-04 dt 03-07-03

DBS.CO.OSMOS.BC.No.16/33.01.001/2002-2003

May 17, 2003

Chairmen/Chief Executive Officers,
 All Scheduled Commercial Banks
 (excl. RRBs & LABs)

Dear Sir,

**Supervisory Reporting System - Off-site Monitoring and Surveillance (OSMOS) -
 DSB Returns - Changes in the Input Module**

As you are aware, since the last revision of the OSMOS input module, certain new regulatory prescriptions have come into effect in respect of management of country risk exposure and consolidated accounting which need to be incorporated into the DSB reporting framework. Further, it has been decided to capture certain key financial information for preparation and maintenance of risk profile template under the proposed Risk Based Supervision (RBS) process.

In view of the above, a revised OSMOS input module is being prepared incorporating necessary modifications, which will be forwarded to banks shortly. While data on country risk exposure is sought to be captured by inserting a new section in the existing return on 'Asset Quality', two new returns have been envisaged to meet the reporting requirement under consolidated supervision and RBS. It has also been decided to capture certain additional data in the existing returns on 'Assets, Liabilities and Off-Balance Sheet Exposures', 'Capital Adequacy', 'Operating Results', 'Asset Quality', 'Interest Rate Sensitivity - Rupee' and 'Operations of Indian Subsidiaries' necessitated on account of the above changes, emerging supervisory focus and suggestions received from banks for better reporting. Besides, it has been decided to change the frequency of the existing Return on operations of Indian subsidiaries (Return XII) from monthly to quarterly.

Though the revised input package is expected to be despatched to banks by the end of June 2003, it may be clarified that the new return on consolidated supervision would be effective from March 2003 onwards. As regards country risk exposure, data would be collected separately for the period ended March 2003. Hence, banks are requested to keep ready the data on country risk exposure and consolidated supervision for the period ended March 2003. The new return on RBS and the remaining changes in existing returns would be effective from June 2003. The new returns and changes in existing returns in the revised input module with brief background are explained in Annexure I and II respectively. The DSB Returns Guidance Note is being suitably revised in the light of these changes and the revised HTML file containing the guidance note would be available along with the revised input module, which will be an useful aid in error free and accurate reporting.

The new returns and changes envisaged in the revised input module are being forwarded in advance so that banks can take necessary steps to bring their MIS in line with the additional data requirements. Queries pertaining to the software package and returns may be addressed to Department of Banking Supervision, Central Office, OSMOS Division at the above address or to e-mail address osmos@rbi.org.in.

Please acknowledge receipt.

Yours faithfully,

Sd/-

(M. Palanisamy)
 Chief General Manager

Annexure - I

1. **Introduction of New Returns :** The following two new returns have been envisaged to capture reporting under consolidated supervision and RBS paradigm.

Sr. No.	Return Name	Periodicity	Rationale/Remarks
1.	Consolidated Prudential Return (CPR)	Half-Yearly at the end of March and September	In terms of <u>DBOD.No.BPBC.72.21.04.018/2001-02</u> dated February 25, 2003, banks have been directed to report consolidated prudential reports as part of the existing DSB returns. This would be a separate return effective from March 2003 onwards.
2.	Return on Risk Based Supervision (RBS)	Half-Yearly at the end of March and September	The RBI has decided to move over to RBS and taken several initiatives to operationalise the system. Risk profile template (RFT) would be the central plank under RBS. Off-site data would provide the major input in preparing and maintaining the RFT on an ongoing

	basis. To start with, certain minimum financials would be collected in a separate return on half-yearly basis. Based on experience gained after operationalisation of RBS, a review of the new return would be undertaken.
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2. Format of the New Returns

2.1 Consolidated Prudential Return (CPR)

While for detailed guidance on preparation of CPR, banks may follow the circular mentioned above, certain important instructions on the scope and schedule of submission of CPR are provided below.

2.1.1 RBI confines CPR to all groups where the controlling entity is a bank. If the bank is a parent company within a group, the bank should submit CPR for the entities under its control.

2.1.2 CPR for a consolidated bank should include information and accounts of related entities viz., subsidiaries, associates and joint ventures of the bank, which carry on activities of banking or financial nature. The bank should justify the exclusion of any entity for the purpose of CPR. All related entities of the bank may be consolidated with the parent on the lines prescribed in the various Accounting Standards issued by the ICAI viz. subsidiaries will be consolidated on a line by line basis (AS 21), associates will be consolidated by the equity method (AS 23) and joint ventures will be consolidated by the proportionate consolidation method (AS 27).

2.1.3 For the purpose of preparation of CPR, the consolidation may exclude group companies which are engaged in (a) insurance business and (b) businesses not pertaining to financial services. The valuation of investment in related entities which are not consolidated should be as per the relevant valuation norm issued by RBI.

2.1.4 Investment in RRBs sponsored by banks would be treated as investments in associates for the purpose of CFS and accounted by "Equity Method" as prescribed under AS 23. It is not necessary for a bank to prepare consolidated financial statements (CFS) if it does not have a subsidiary, while having sponsored RRBs (with investment limited to 35% of total equity). However, such banks (not having any subsidiary but having sponsored RRBs) should prepare and submit consolidated prudential reports (CPR).

2.1.5 CPR for half-year ended March has to be submitted by June. If audited results of entities under the CPR are not available, banks should submit the provisional CPR with unaudited results of such entities, by June. However, CPR for the half-year ended March with audited results has to be submitted by September. The CPR for half-year ended September has to be submitted by end of December.

2.1.6 Under the consolidated prudential return, banks are required to report on a half-yearly basis the following:

- * Consolidated balance sheet of the bank
- * Consolidated profit & loss account of the bank
- * Select data on financial / risk profile of the consolidated bank

2.1.7 The formats of the consolidated balance sheet and profit & loss account have been furnished in Appendix A to the circular "Guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision" (DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003). The formats of select data on financial / risk profile of the consolidated bank have been furnished in Appendix B to the above circular. **The exact formats of CPR as given in the appendices of the above circular have been incorporated in the input module.** The return should be compiled as per the above guidelines dated February 25, 2003.

2.2 Return on Risk Based Supervision

The following data / information would be collected under the above new return.

I. Credit concentration - Break-up of Retail Loans

(Rs in Lakhs)				
Item		Total Credit Outstanding	Of which Impaired Credits	Loss Provision Held
1.	Housing Loans			
2.	Loans for Consumer Durables			
3.	Credit Card Receivables			
4.	Other Personal Loans			
Total (1+2+3+4)				
5.	Loans and Advances - total			

II. Market Risk

1. Borrower rating wise distribution of Standard Advances

Rating-wise credit data

(Rs. in Lakhs)			
Sr. No.	Internal Rating	Aggregate Standard Advances under the rating	Remarks
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
Unrated Advances			
Total Standard Advances			

Note : Rating here refers to the internal rating used by banks for credit decision and pricing. Rating-wise aggregate position of Standard advances may be given in a descending order of quality of rating (from the best rating downwards). If more than 10 rating categories exist, the additional classifications may be clubbed with the last category. Total should agree with Return I/IV details. Under remarks column, please provide brief details of attributes of the rating and the pricing of advances in term of PLR (not exceeding 100 characters).

2. *Rating wise distribution of Non-SLR Investments***Rating-wise Non-SLR investment data**

(Rs. in Lakhs)			
Sr. No.	Rating	Aggregate Non-SLR investments	Remarks
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
Unrated Non-SLR investments			
Total Non-SLR investments			

Note : Rating here refers to the internal rating used by banks for investment decision. Rating-wise aggregate position of Non-SLR investments may be given in a descending order of quality of rating (from the best rating downwards). If more than 10 rating categories exist, the additional classifications may be clubbed with the last category. Total should agree with Return I/IV details. Under remarks column, please provide brief details of attributes of the rating (not exceeding 100 characters).

1. Country Risk Exposure

As per circular DBOD.BP.BC.71/21.04.103/2002- 03 dated February 19, 2003 on "Risk Management Systems in Banks - Guidelines on Country Risk Management" banks have been directed to report details of their country-wise exposures to the RBI as a part of their DSB returns along with the details of the provisions held thereof. For the present, where a bank's net funded exposure to a country is 2% or more of its total assets, the bank is required to frame country risk management policy and monitor the exposure accordingly. Hence the banks should only report details of country exposures in the return which are 2% or more of their total assets. As regards rating of a country, banks have been advised to use the seven category classification followed by Export Credit Guarantee Corporation of India Ltd. (ECGC) for the purpose of classification and making provisions for country risk exposures as advised in the above circular. The ECGC country risk classification has been incorporated in the revised input module. If a bank has put in place the requisite internal rating model for country risk assessment, the bank should map the internal rating to ECGC risk classification for the purpose of reporting in DSB return.

Data on country risk exposure would be collected as part of the existing return on asset quality on a quarterly basis. A separate new 'Section 10 - Country Risk Exposure' would be inserted at the end of the existing return on asset quality. The format of the above section would be as follows:

Country Name	Country Risk Classification	Gross Funded Exposure		Net Funded Exposure		Total Non-Funded Exposure	Provision Held for Country Exposure	Provision as % of Non Funded Exposure
		Total	Of which Short Term Exposure	Total	Of which Short Term Exposure			
1	2	3	4	5	6	7	8	9

At the end of each row a child screen would popup to capture data on asset quality in respect of gross exposure of that country whose format is as follows:

Rs. in Lakhs		
Country Name :		
Country Risk Classification :		
Sr. No.	Asset Classification	Amount
1	Standard	
2	Substandard	
3	Doubtful	
4	Loss	
Total (1+2+3+4)		

2. Additional data / information in existing returns

Sr. No.	Additional information required - Name of the item/sub-item	Return Name / section where the item /sub-item is added	Background of change / Cross validation Remarks
1.	Provision for Country Risk	Return I - (ALE) - input screen 7 - under 'Risk Provision other than netted off assets' after 'for standard advances'	To track cumulative provision held on account of country risk exposures
2.	Provision for Country Risk	Return III - (ROR) - input screen 5 - under 'Risk Provisions' after provision on standard advances	To facilitate reporting of country risk provision charged to current year's profit
3.	Letters of Credit- Clean	Return I - (ALE) - input screen 9 - under ' Off Balance Sheet Exposure' after letters of credit - documentary	To facilitate proper reporting of the item
4.	Letters of Credit - Clean	Return II - (RCA) - input screen 6 - Section B Contingent Credits & Exposures - after letters of credit (Docy)	To facilitate proper reporting of the item. The total exposure of clean letters of credit as reported in RCA should match with the item as reported in (ALE).
5.	Unsecured advances and unsecured guarantees	Return I - (ALE) - input screen 9 - a new memorandum item	To monitor the extant regulator norm that 20% of outstanding unsecured guarantee plus the total of outstanding unsecured advances do not exceed 15% of total outstanding advances

6.	Any other (to be specified)	Return IV - RAQ - input screen 10 - Exposures to Sensitive Sectors - after IPO financing under A1 Fund based advances to capital market	To facilitate reporting of certain advance against collateral of shares / bonds and debentures which are treated as exposure to capital market like advances to NBFCs against collateral of shares / bonds and debentures.
7.	Any other (to be specified)	Return IV - RAQ input screen 10 - Exposures to Sensitive Sectors - after equity oriented Mutual Funds under B Investment in Capital Market	To facilitate reporting of certain investments not included in the exempted category like investment in Venture Capital Fund not registered with SEBI.
8.	* Capital & Reserves * Total Deposits * Total Borrowings * Profit before Tax	RIS - Return on Operations of Indian Subsidiaries - after notional capital adequacy ratio	To align data elements with the select financial / risk profile of the consolidated bank under the new Consolidated Prudential Return (CPR).
9.	Total Dividends paid	RIS - Return on Operations of Indian Subsidiaries - after return on equity	To align data elements with the select financial / risk profile of the consolidated bank under the new Consolidated Prudential Return (CPR).
10.	Of which Held to Maturity	Interest Rate Sensitivity (Rupee) - after 'Investments including those under Repos but excluding Reverse Repos' under assets	To assess the interest rate sensitivity of investments held in the banking book.

3. Other Changes in the Return on Operations of Indian Subsidiaries

3.1 Change in Name of the Return

The name of the return has been changed to "Return on Operations of Subsidiaries / Associates / Joint Ventures" (ROS).

3.2 Coverage

The coverage of the return has been enhanced to include operations of foreign subsidiaries / associates / joint ventures of the banks.

3.3 Frequency

The frequency of the return has been changed from monthly to quarterly.