



भारतीय रिजर्व बैंक

## RESERVE BANK OF INDIA

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सन्दर्भ पर्य सं. /Ref. No.DBS.BMD(1)/ ५० /Fincon/2004-05

August 19, 2004

The Managing Director & Chief Executive Officer,  
ICICI Bank Ltd.,  
Corporate Office,  
Bandra Kurla Complex,  
Mumbai - 400 051.

### Monitoring mechanism for Financial Conglomerates

As you may be aware, an inter-regulatory working group had been constituted for devising a monitoring mechanism for financial conglomerates. The Group had submitted its report which had been placed in on our website for comments. A summary of the recommendations of the group is enclosed as Annexure-I.

It has now been decided to operationalise the recommendations of the Working Group. In this connection, it is advised that ICICI Bank Ltd., along with its associated entities as defined by the Working Group, has been identified as a financial conglomerate for the purpose of the proposed framework. The complete list of entities included as part of the framework, as per the information available with us, is enclosed as Annexure-II. ICICI Bank Ltd. would be the designated entity for the entire group which would report on behalf of all identified group entities to Reserve Bank of India, the Principal Regulator for the group, in the prescribed formats.

The modalities for electronic data submission are being worked out and it may take some time for the framework to stabilize fully. To begin with, however, it is requested that ICICI Bank may furnish the following :

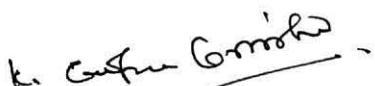
- Details of entities which are not included in the enclosed list but which fulfill the definition prescribed by the Working Group;

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- Completely filled up formats in respect of all the identified entities as well as those included at (a) above for the month/quarter ended June 30, 2004; the same may be furnished in MS-Excel format on floppies or through e-mail to [fincon@rbi.org.in](mailto:fincon@rbi.org.in).

We are open to an one-to-one meeting with the bank, if required, for discussing the finer details of the framework and the reporting requirements. It is, however, requested that any clarification process be done with by this month-end. The information needs to be furnished latest by September 5, 2004 to carry forward the process in a time bound manner.

Yours faithfully,



**(K.Gopalakrishnan)**  
General Manager

## Annexure I

### **Summary of the Proposed Framework**

The new framework has been proposed as a complementary strand to the already existing regulatory structure - supervision of individual entities by respective regulators viz. RBI, SEBI, IRDA and the system of Consolidated Prudential Reporting recently introduced in regard to banks. The basic building blocks of the new framework will be:

- (i) identification of Financial Conglomerates that would be subjected to focused regulatory oversight;
- (ii) capturing intra-group transactions and exposures (which are not being captured as of now) amongst 'group entities' within the identified financial conglomerate and large exposures of the groups to outside counterparties;
- (iii) identifying a designated entity within each group that would collate data in respect of all other group entities and furnish the same to its regulator (principal regulator for the group);
- (iv) formalising a mechanism for inter-regulatory exchange of information.

The proposed framework covers the segments under the jurisdiction of RBI, SEBI, IRDA, and NHB and in due course the segment covered by Pension Fund Regulatory and Development Authority would also be included.

#### Criteria for identifying a Financial Conglomerate:

A group would be designated as a 'Financial Conglomerate' if :

- (i) any group entity coming under the jurisdiction of specified regulators and having a significant presence in the respective financial market segment;  
and
- (ii) the group is having operations in at least one more financial market segment.

**Group :** An arrangement involving two or more entities related to each other through any of the following relationships : Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 23), Associate ( defined in terms

of AS 27), Promoter-promotee, a related party (defined in terms in AS 18) Common brand name, and investment in equity shares 20% and above Group entity : any entity involved in the above arrangement Specified Regulator : RBI, SEBI, IRDA and NHB for the present. Significant presence in the respective financial market segment :

<b>Financial market segment</b>	<b>Significant presence</b>
Bank	Included in the top 70% of the segment in terms of asset base
Insurance Company	Turnover more than Rs.100 crore;
Mutual Fund	Included in the top 70% of the segment in terms of asset under management (AUM);
NBFC (deposit taking)	Included in the top 70% of the segment in terms of deposit base;
NBFC (non-deposit taking)	Asset base more than Rs.2000 crore;
Primary Dealer	Included in the top 70% of the segment in terms of total turnover

The framework would also cover entities having an overseas parent or holding company (e.g. Foreign banks) and satisfying the specified criteria. Further, broking arms of all identified groups and Housing Finance Companies belonging to the identified groups will be included within the framework for reporting purposes.

The Group has decided that the following specific entities will be kept out of the framework for the present : RRBs, Depositories, SPVs (including trusts), ARCs and associates of SBI. The cluster of financial conglomerates thus identified, as well as the criteria for identifying them, would be subject to periodic review.

The Group has also recommended that the exemption of a particular entity within an identified group from reporting for any reason may be considered on a case-to-case basis. The 'exclusion list' may also be subject to periodic review.

**Reporting Framework :** The new reporting framework has been developed for tracking the following :

1. Any unusual trend in respect of intra-group transactions manifest in major markets
  - Aggregate volumes in respect of all intra-group transactions during the reporting period manifest in major markets,

- Fund based (equity, loans, deposits/placements and others);
    - Non-fund based (Guarantees, derivatives, etc.)
  - Details of individual intra-group transactions above threshold levels – Rs.1.00 crore for fund based and Rs.10.00 crore for non-fund based;
2. Build up of any disproportionate exposure (both fund based as well as non-fund based) of any entity to other group entities;
- Outstanding positions in respect of each entity vis-à-vis every other group entity as on the reporting date.
3. Any group-level concentration of exposure to various financial market segments and outside counterparties;
- Outstanding positions in respect of each entity in major markets.
4. Direct/indirect cross-linkages amongst group entities
- Crossholdings;
  - Intra-group advisory and service arrangements;
  - Commonality of directors and senior executives;

The framework envisages furnishing of the required data by the 'designated entity' in respect of each identified financial conglomerate to its own regulator (the principal regulator) at monthly/quarterly intervals. It also requires each regulator to establish a nodal cell at its end for facilitating data flow as also for analysing the Returns being received from the conglomerates. Central database would be maintained at the nodal cell RBI to address issues arising out of data disaggregation. The modalities of electronic data submission and the database issues needed to be addressed in this regard. The primary responsibility of analysing the Return and initiating any action thereon, if required, would lie with the Principal Regulator. Post-analysis, the principal regulator would share with the other regulators the analysis of the data submitted. The salient features of the analysis and any unusual trend would be discussed by the Technical Committee which could recommend further course of action. A quarterly review report would be prepared on the functioning of the entire mechanism and put up to the top management of all the three regulators which would be placed before the Standing Committee referred to above.