

**Government of India
Ministry of Finance
Department of Economic Affairs**

PRESS RELEASE

India: Financial Sector Assessment Program 2017 - Detailed Assessment Reports (DARs)

The two main reports of the 2017 India Financial Sector Assessment Programme (FSAP) – the Financial System Stability Assessment (FSSA) and Financial Sector Assessment (FSA), were released by the International Monetary Fund (IMF) and the World Bank, respectively on their websites on December 21, 2017. In continuation, the IMF and the World Bank today released two Detailed Assessment Reports (DARs) relating to the 2017 India FSAP. The report providing ‘Detailed Assessment of Observance—Basel Core Principles for Effective Banking Supervision’ has been released by the IMF and the World Bank and the report providing ‘Detailed Assessment of Observance of Clearing Corporation of India Limited (CCIL) Central Counterparty (CCP) and Trade Repository (TR)’, was released by the World Bank.

India welcomes these assessment reports by the joint IMF-World Bank team conforming to the highest international standards.

The DAR on the observance of Basel Core Principles (BCP) commends the Reserve Bank for the remarkable progress in strengthening banking supervision since the last FSAP. It notes that the supervision and regulation by the Reserve Bank remain strong and have improved in recent years. Most of the Basel III framework (and related guidance) has been implemented and cooperation arrangements, both domestically and cross-border, are now firmly in place. It states that the system-wide asset quality review (AQR) and the strengthening of prudential regulations in 2015 testify to the authorities’ commitment to transparency and a more accurate recognition of banking risks. A special mention is made of the implementation of a risk-based supervisory approach, in particular the Supervisory Program for Assessment of Risk and Capital (SPARC); as also the phasing-in of the Liquidity Coverage Ratio (LCR) and large exposure limits and states that the recently established Central Repository of Information on Large Credits (CRILC), will provide RBI with a robust supervisory enforcement framework. It acknowledges that banking reforms, including the Indradhanush Plan for revitalizing the PSBs and the Bank Board Bureaus have helped usher in an era of transparency and improved discipline and will go a long way in resolving the problem of bad loans in India.

The DAR on the BCP was prepared before the announcement of the recapitalization of Rs. 2.11 trillion (about US\$32 billion) and the undercapitalization of PSBs mentioned in the Report has since been effectively addressed by this Plan as has already been noted in the ‘Financial System Stability Assessment (FSSA) for India’ released on December 21, 2017.

The DAR relating to the assessment of the CCIL on CCP system and TR systems' benchmarking against the applicable Principles of Financial Market Infrastructure (PFMI) concluded that the CCIL systems have a high degree of observance of the principles. CCIL has a prudent risk management framework and high operational reliability. CCIL is subjected to off-site supervision as also on-site inspection by Reserve Bank. CCIL's bye-laws, rules, and regulations provide required legal basis on its various material aspects such as netting, finality of settlement and default procedures. In all the segments where CCIL offers CCP clearing service, a process is in place to collect intra-day marked-to-market margin and volatility margin and there is an established default handling waterfall in place. The participants in each segment are also required to contribute to the Default Fund. In addition, CCIL has established a Settlement Reserve Fund as its skin-in-the-game.

The recommendations made in the assessment reports are mainly to bring about further improvements in the structure and functioning of the financial system and many of the detailed recommendations are in sync with the authorities' own developmental plans. Overall, the two DARs reflect a high degree of compliance with the BCP and with the PFMI, respectively and the authorities are committed to make further improvements in these areas.

The DAR on BCP released by IMF can be accessed at: <http://www.imf.org/en/Publications/CR/Issues/2018/01/19/India-Financial-Sector-Assessment-Program-Detailed-Assessment-of-Observance-of-the-Basel-45542>

The DAR on BCP, also released by World Bank, can be accessed at: <http://documents.worldbank.org/curated/en/158741516303040317/India-Detailed-assessment-of-observance-basel-core-principles-for-effective-banking-supervision>

The DAR on CCIL released by World Bank can be reached at: <http://documents.worldbank.org/curated/en/502811516303508722/India-CPMI-IOSCO-principles-for-financial-market-infrastructures>

Sd/- .
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